



Hart Nurse Ltd
(United
Kingdom)

in association with

**Baker Tilly
Meralis (Zambia)**

COUNTRY :
ZAMBIA

PROJECT NAME :
ZAMBIA EXTRACTIVE INDUSTRY
TRANSPARENCY INITIATIVE

TITLE OF CONSULTING SERVICES:
CONSULTING SERVICES FOR THE ZEITI
INDEPENDENT RECONCILER FOR THE 2010
RECONCILIATION REPORT

FINAL RECONCILIATION REPORT



Hart Group

89 High Street
Thame, Oxfordshire
OX9 3EH England

Phone:
+44-1844-218836

E-mail:
chrisnurse@hart-group.com

www.hart-group.com
www.hart-group-eiti.co.uk

19TH FEBRUARY 2013

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ABBREVIATIONS AND ACRONYMS

CEMP	Consolidated Environmental Management Plans
EITI	Extractive Industries Transparency Initiative
EIS	Environmental Impact Statement
EPF	Environmental Protection Fund
GRZ	Government of the Republic of Zambia
MMEWD	Ministry of Mines, Energy and Water Development
MoFNP	Ministry of Finance and National Planning
MOLGH	Ministry of Local Government and Housing
mt	Metric tonne(s)
OAG	Office of the Auditor General
PAYE	Pay As You Earn
SAP	Structural Adjustment Programme
TPIN	Tax Payer Identification Number
USGS	US Geological Survey
VAT	Value Added Tax
ZEC	Zambia EITI Council
ZEITI	Zambia Extractive Industries Transparency Initiative
ZMK	Zambian Kwacha
ZRA	Zambia Revenue Authority

89 High Street
Thame
Oxfordshire OX9 3EH
England

Tel: +44 (0) 1844 218836
www.hart-nurse.co.uk

Hart Nurse Ltd

Chartered Accountants

The Head-ZEITI Secretariat
Ministry of Mines, Energy and Water Development
New Government Complex, 14th floor, Room 12
Independence Avenue
P.O Box 31969
Lusaka
Zambia

19th February 2013

Dear Sirs,

Hart Nurse Limited as the lead consultant, supported by Baker Tilly Meralis, Zambia, has been appointed by the Government of the Republic of Zambia (GRZ), acting through the Ministry of Mines, Energy and Water Development, to undertake the 3rd EITI Reconciliation for Zambia for the year 2010 and to prepare a report on this Reconciliation ("Engagement").

The Engagement was undertaken in accordance with the International Standard on Related Services applicable to Agreed-upon Procedures Engagements (ISRS 4400). The procedures performed were those set out in the Terms of Reference appended to this report, except where stated otherwise in this report including its appendices.

We set out our findings in the report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for informing the Zambia EITI Council on the matters set out in the terms of reference and is not to be used for any other purpose.

The report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole.

We remain,
Yours sincerely,



Christopher Nurse
Director



1 INTRODUCTION

This is the third Zambia Extractive Industries Transparency Initiative (EITI) reconciliation, which covers the period 1st January to 31st December 2010; and the first reconciliation report since Zambia become compliant on 19 September 2012. The reconciliation work was carried out in accordance with the terms of reference included in Section 8, between 25th September 2012 and 19th February 2013.

The report is intended for the use of the Zambia EITI Council for the purpose of that initiative and is not to be relied upon by other parties.

The report includes its Appendices, which are bound separately.

1.1 OBJECTIVE

The objective of the engagement is to ensure the transparency and credibility of certain mining sector payments and receipts in Zambia. To this end, the engagement entailed an analysis and reconciliation of material payments and receipts made by specified Covered Entities in 2010 in the mining sector.

1.2 SCOPE OF WORK

Hart Nurse Ltd and Baker Tilly Meralis (“the Consultants”) were required to undertake the work set out in the Terms of Reference for the engagement. The reconciliation has been carried out on a cash accounting basis.

If there are material receipts or payments omitted from the reporting templates by both the paying and receiving entities, our work would not be sufficient to detect them. Any such receipts or payments would not therefore be included in our report.

In conducting our work, we have relied upon the information and explanations obtained from Covered Entities.

Our report incorporates information received up to 14th February 2013. Any information received after this date is not, therefore, included in our report. Certain confirmations, that did not affect data or reconciliations, were received subsequently and have been included.

1.3 STRUCTURE OF THE REPORT

The report contains:-

- a. An Executive Summary
- b. A brief overview of the extractive sector in Zambia
- c. Our approach to undertaking the Engagement
- d. A description of the scope of the reconciliation

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- e. The results of the reconciliation, including details of the flows (payments and receipts) reported, identification of unresolved differences, with information about the type of receipt/payment involved and the Covered Entities whose reported figures remain un-reconciled.
- f. A summary of issues arising during the Engagement together with recommendations for improvements in transparency and EITI processes.

Full details of initial differences, adjustments made and unresolved differences, analysed by type of financial / in kind flow, are reported, together with other supporting information.

1.4 ACKNOWLEDGEMENT

We would like to express our sincere thanks to the Ministry of Mines, Energy and Water Development, the Zambia Extractive Council Members (ZEC), and special recognition is given to Mr. Bishop Sampa Kalungu, Vice Chair of the ZEC; and to Mr. Siforiano Banda and Mr. Kaonga Mazuba from the ZEITI Secretariat, who have assisted us in receiving timely replies from the Government and participating companies from the extractive industry, and for sending and receiving official confirmation letters to/from these parties.

2 EXECUTIVE SUMMARY

This summary sets out the main findings from the exercise to reconcile the receipts declared by the Government from mining companies included in the EITI reconciliation for 2010 with the payments to Government reported by those companies.

2.1 SUMMARY OF FLOWS REPORTED

The reported differences between the value of all relevant payments¹ declared by the extractive industry and the Government and its Agencies at commencement of the reconciliation amounted to K413 billion, as summarised in the table below:

Summary of flows initially reported

	Government (ZMK 000)	Extractive Companies (ZMK 000)	Difference (ZMK 000)	%
Total payments declared initially by reporting entities	2,944,279,008	3,357,288,922	413,009,914	14.0%

Table 2.1

Excluding the figures reported by government in respect of the two companies which did not provide information for the reconciliation (see section 2.5 below), the net difference between the value of all relevant payments declared by the extractive industry and the government and its agencies at 14th February 2013 amounted to ZMK 8.8 billion, being 0.23 % of the total amount declared by Government Bodies, as shown in the table below:

	Government (ZMK 000)	Extractive Companies (ZMK 000)	Difference (ZMK 000)	%
Payments excluding PAYE	3,052,288,029	3,035,289,786	16,998,243	0.56%
PAYE	741,841,693	750,028,898	-8,187,205	-1.10%
Total payments declared as at 14 February 2013	3,794,129,723	3,785,318,684	8,811,039	0.23%

Table 2.2

The differences are further analysed in section 2.3.

¹ A relevant amount is a receipt / payment for a flow included in the reconciliation (see section 5.1.1 for a list of these flows).

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The unreconciled difference is the net of

- flows where government reported higher receipts than companies reported payments, and
- flows where companies reported payments in excess of receipts reported by government

as follows:-

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	Net Difference (ZMK million)	Under reported by	
		Companies (ZMK million)	Government (ZMK million)
Ministry of Mines and Mineral Development	914,123	-159,983	1,074,106
1 Application Fees	-11,324	-11,324	
2 Licence Fees	509,692		509,692
3 Area Charges	-146,419	-146,419	
4 Valuation Fees	115,818		115,818
5 Annual Operating Permit	-2,240	-2,240	
6 Environmental Protection Fund	119,885		119,885
7 Other fees & charges	328,711		328,711
Zambia Revenue Authority	7,060,058	-35,915,291	42,975,349
8 Pay- As-You-Earn	-8,187,205	-8,187,205	
9 Import VAT	19,975,157		19,975,157
10 Mineral Royalty	10,375,260		10,375,260
11 Company Income Tax	-108,761	-108,761	
12 VAT (non refundable)	-21,611,465	-21,611,465	
13 Import Duty	-585,666	-585,666	
14 Withholding Taxes	12,624,392		12,624,392
15 Excise Duty	-445,419	-445,419	
16 Property Transfer Tax	540		540
17 VAT Refunds			
18 Variable profit Tax			
19 Other taxes (ZRA)	-4,976,775	-4,976,775	
Local Councils	-98,707	-194,405	95,698
20 Annual Business Fees	95,698		95,698
21 Property Rates	-194,405	-194,405	
Ministry of Lands	935,564		935,564
22 Ground Rent	915,564		915,564
23 Consideration Fees			
24 Registration Fees	7,500		7,500
25 Preparation fees	12,500		12,500
Ministry of Finance			
26 Dividends from Government Shares			
Total payments	8,811,038	-36,269,679	45,080,717

Table 2.3

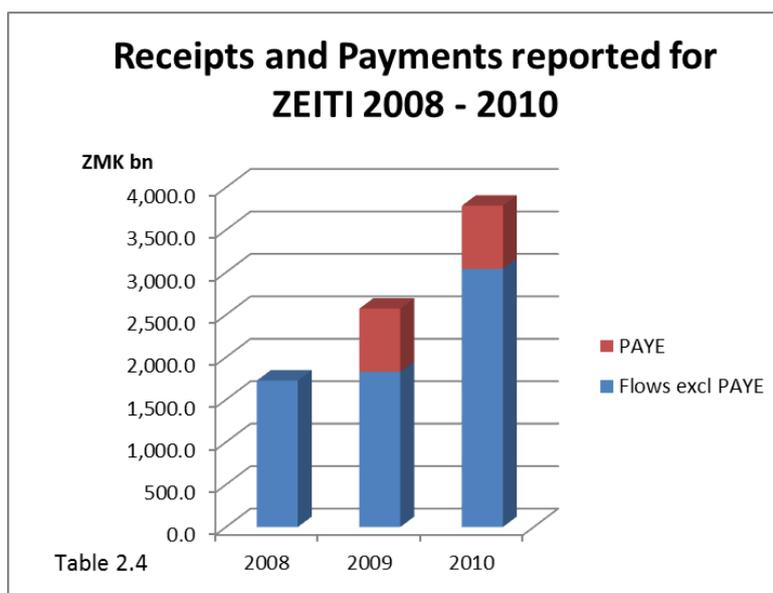
Payments to the Environmental Protection Fund, which are made in US\$ and held in a US\$ bank account, have been converted to ZMK at the rate of \$1:ZMK 5,000 for inclusion in the summary above. After reconciliation, the government's reported receipts to the Fund included in the totals above were \$ 2,994,685 and the companies' reported payments to the Fund were \$ 3,018,662.

Further details about the operation of the Fund are contained in section 5.4.5.1.

2.2 GOVERNMENT RECEIPTS

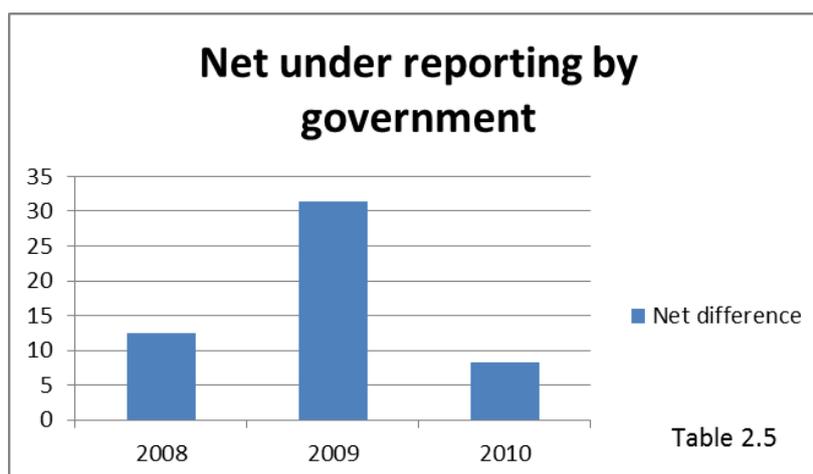
2.2.1 HISTORICAL INFORMATION

The aggregate financial receipts declared by Government for each of the EITI reconciliations to date (2008 – 2010) are displayed on the following graph:

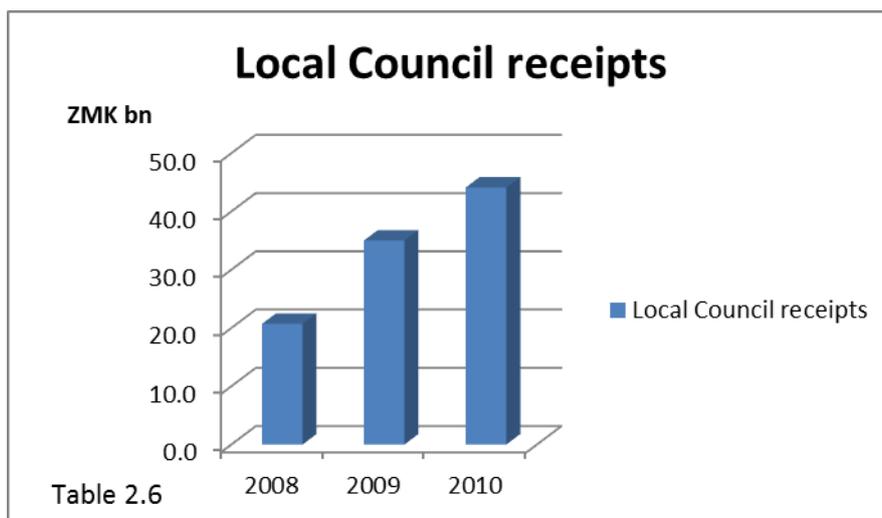


Note – PAYE was not a covered flow for the 2008 reconciliation.

The net unreconciled differences for the same period were:-



The totals above include receipts from local councils, which reported receipts as follows:

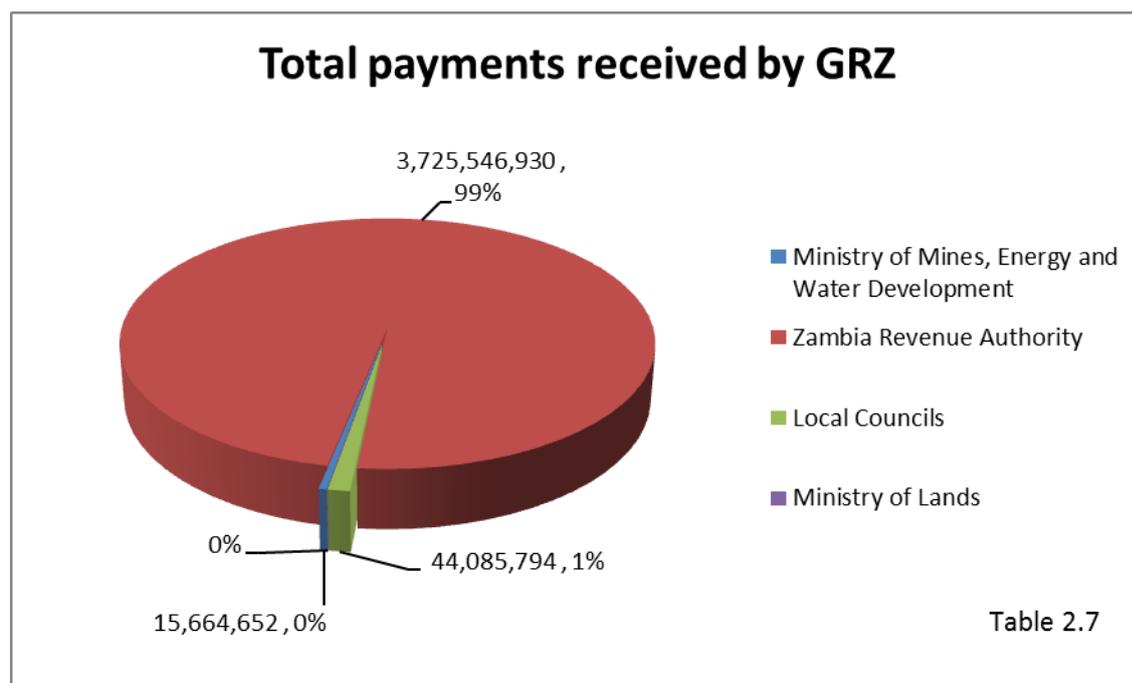


Details of the payments to each council, including an analysis of payments to local councils by paying company is included in Appendix 8.7.

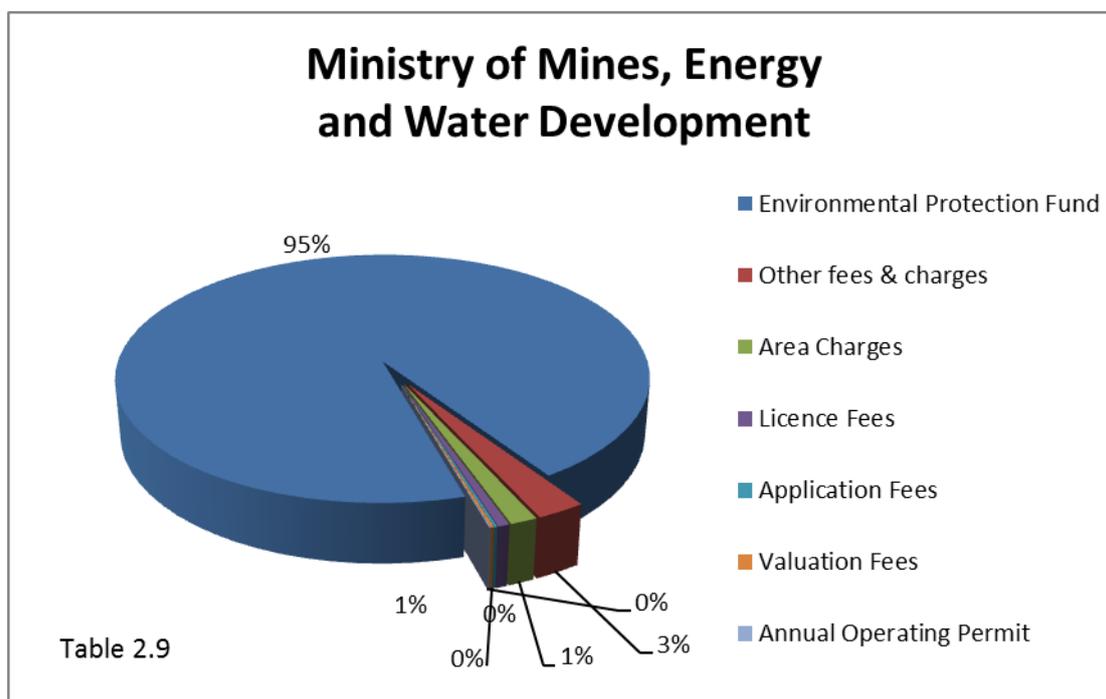
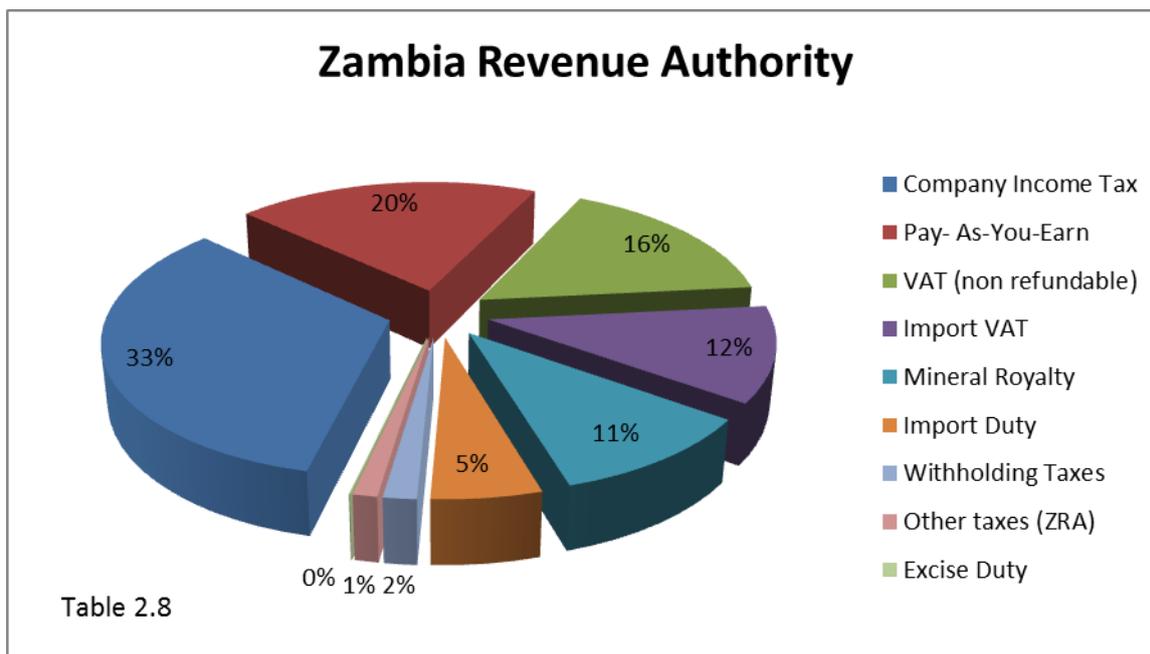
The information in this section for 2008 and 2009 has been extracted from the published EITI reports for those years, and has not been verified as part of this reconciliation.

2.2.2 2010 RECEIPTS

Receipts were reported in 2010 by government as follows:-



ZRA collected the largest value of receipts included in the reconciliation, followed by MMEWD. The types of receipts collected by these Agencies are shown in the following charts.



Receipts from MOL and District Councils are set out in section 6.2.

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2.3 UNRECONCILED DIFFERENCES

After visits to and discussions with reporting entities, and review of additional supporting evidence provided those entities, certain differences were not resolved. These unreconciled differences are summarised in the following tables

- a) by company (table 2.7)
- b) by payment/tax type (table 2.8)
- c) major unreconciled differences (table 2.9)

a) Unreconciled differences by company

Company		2010 Final reconciliation		
		Company	Government	Difference
KANSANSHI MINING PLC	ZMK'000	1,493,573,334	1,493,480,755	92,579
KONKOLA COPPER MINES PLC	ZMK'000	594,218,044	593,633,776	584,268
LUMWANA MINING COMPANY LIMITED	ZMK'000	566,588,322	566,627,480	(39,158)
MOPANI COPPER MINES PLC	ZMK'000	364,500,386	364,080,376	420,010
FIRST QUANTUM MINING AND OPERATIONS LTD-BM M S	ZMK'000	274,396,301	273,532,704	863,597
CHIBULUMA MINES PLC.	ZMK'000	151,573,070	150,522,826	1,050,245
NFC AFRICA MINING PLC	ZMK'000	110,154,951	110,000,734	154,217
LAFARGE CEMENT ZAMBIA PLC	ZMK'000	50,132,208	47,727,038	2,405,170
CNMC LUANSHYA COPPER MINES PLC	ZMK'000	37,145,559	36,991,979	153,580
ZAMBEZI PORTLAND CEMENT	ZMK'000	26,344,205	29,658,767	(3,314,562)
NDOLA LIME COMPANY LIMITED	ZMK'000	28,352,110	29,375,907	(1,023,797)
CHAMBISHI METALS PLC	ZMK'000	22,778,023	23,514,821	(736,798)
CHAMBISHI COPPER SMELTER LIMITED	ZMK'000	18,291,645	18,979,050	(687,405)
KAGEM MINING LIMITED	ZMK'000	9,648,112	9,455,650	192,462
SCIROCCO ENTERPRISES LIMITED	ZMK'000	9,091,678	9,109,207	(17,529)
ALBIDON ZAMBIA LIMITED	ZMK'000	19,506,240	8,769,366	10,736,874
ZCCM INVESTMENTS HOLDINGS PLC	ZMK'000	6,594,317	7,028,480	(434,163)
SINO-METALS LEACH ZAMBIA LIMITED	ZMK'000	5,131,112	6,440,525	(1,309,413)
SAN HE (ZAMBIA) LIMITED	ZMK'000	3,083,820	3,413,118	(329,298)
MAAMBA COLLIERIES LIMITED	ZMK'000	3,026,285	2,976,126	50,159
TOTAL PAYMENTS	ZMK'000	3,794,129,723	3,785,318,684	8,811,039

Table 2.7

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b) Unreconciled differences by payment/Tax Type

No. Tax		2010 Final reconciliation			
		Company	Government	Difference	
Ministry of Mines, Energy and Water Development					
1	Application Fees	ZMK'000	15,320	26,644	(11,324)
2	Licence Fees	ZMK'000	605,121	95,429	509,692
3	Area Charges	ZMK'000	76,547	222,966	(146,419)
4	Valuation Fees	ZMK'000	140,079	24,261	115,818
5	Annual Operating Permit	ZMK'000	8,830	11,070	(2,240)
6	Environmental Protection Fund	ZMK'000	15,001,309	14,881,424	119,885
7	Other fees & charges	ZMK'000	731,569	402,858	328,711
	TOTAL - MMEWD		16,578,775	15,664,652	914,123
Zambia Revenue Authority					
8	Import VAT	ZMK'000	449,242,952	429,267,796	19,975,157
9	Mineral Royalty	ZMK'000	402,171,098	391,795,837	10,375,260
10	Company Income Tax	ZMK'000	1,240,614,775	1,240,723,536	(108,761)
11	VAT (non refundable)	ZMK'000	586,177,255	607,788,720	(21,611,465)
12	Import Duty	ZMK'000	198,259,980	198,845,646	(585,666)
13	Withholding Taxes	ZMK'000	72,888,987	60,264,595	12,624,392
14	Excise Duty	ZMK'000	2,182,048	2,627,467	(445,419)
15	Property Transfer Tax	ZMK'000	540	-	540
16	VAT Refunds	ZMK'000	-	-	-
17	Variable profit Tax	ZMK'000	-	-	-
18	Other taxes (ZRA)	ZMK'000	39,227,660	44,204,435	(4,976,775)
	Sub-total		2,990,765,295	2,975,518,032	15,247,263
19	Pay- As-You-Earn	ZMK'000	741,841,693	750,028,898	(8,187,205)
	TOTAL - ZRA		3,732,606,989	3,725,546,930	7,060,058
Local Councils					
20	Annual Business Fees	ZMK'000	140,698	45,000	95,698
21	Property Rates	ZMK'000	43,846,389	44,040,794	(194,405)
	TOTAL - Councils		43,987,087	44,085,794	(98,707)
Ministry of Lands					
22	Ground Rent	ZMK'000	936,872	21,308	915,564
23	Consideration Fees	ZMK'000	-	-	-
24	Registration Fees	ZMK'000	7,500	-	7,500
25	Preparation fees	ZMK'000	12,500	-	12,500
	TOTAL - MoL		956,872	21,308	935,564
Ministry of Finance and National Planning					
26	Dividends from Government Shares	ZMK'000	-	-	-
	TOTAL - MoFNP		-	-	-
	TOTAL - excluding PAYE		3,052,288,029	3,035,289,786	16,998,243
27	Pay- As-You-Earn		741,841,693	750,028,898	(8,187,205)
	TOTAL RELEVANT PAYMENTS	ZMK'000	3,794,129,723	3,785,318,684	8,811,039

Table 2.8

The unresolved differences across total relevant payments (see section 2.1) as a proportion of the receipts reported by government amount to 0.23%. The ZEC has determined that this difference is not material in the context of the 2010 ZEITI reconciliation, but is considering further action to be undertaken to examine and understand the causes of the residual differences, as discussed in section 7.1.

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c) Major unreconciled differences

The largest differences in tables 2.7 and 2.8 are:-

Extractive Company	PAYE	Import VAT	Mineral Royalty	VAT non refundable	With holding tax	"Other taxes" (ZRA)	Others < ZMK 1 bn	Total net difference
Net difference > ZMK 1 bn								
ALBIDON ZAMBIA LIMITED		-1.3	10.4					10.74
FIRST QUANTUM MINING AND OPERATIONS LTD-BM M S		-1.0			2.2			0.86
LAFARGE CEMENT ZAMBIA PLC	-8.5	22.0		-21.0	9.2			2.41
NDOLA LIME COMPANY LIMITED						-1.2		-1.02
SINO-METALS LEACH ZAMBIA LIMITED						-1.0		-1.31
ZAMBEZI PORTLAND CEMENT	-1.1	-1.3		-1.2				-3.31
Sub total	-9.6	18.4	10.4	-22.2	11.4	-2.2	2.2	8.37
Net differences < ZMK 1bn								
	1.4	1.6		0.6	1.2	-2.8	-1.6	0.43
Total net differences	-8.2	20.0	10.4	-21.6	12.6	-5.0	0.6	8.80

Table 2.9

By way of explanation:-

- This table shows each payment flow where the unresolved difference between the total receipts reported by government and the total payments reported by the company exceeds ZMK 1 bn.
- reporting companies where there are no unresolved differences greater than ZMK 1 bn are shown in total on the line "net differences < ZMK 1 bn".
- Similarly, only taxes / payment types where the unresolved difference exceeds ZMK 1 bn are shown by name. Where the taxes / payment types with unresolved difference are less than ZMK 1 bn, the total of such differences is included in the column headed "Others < ZMK 1 bn".

2.4 KEY FINDINGS

The key highlights and conclusions arising from the reconciliation work carried out are outlined below.

- The quality and content of information provided by reporting entities was generally satisfactory, although there are areas where improvement is needed. The quality and timing of production of the information reported from the Government Bodies generally requires improvement. The ability of the data systems and reporting used in government departments to produce the information required for EITI reconciliations on a continuing basis should be examined and, where appropriate, improvements made.
- There was confusion over the type of information to be provided under certain of the headings on the data collection templates, or misunderstanding of what was to be reported, namely:-
 - Refundable VAT was not well understood or accounted for in many cases, in particular by reporting entities with a lot of material imports of goods, services, plant and machinery

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- b. The occurrence, operation and treatment of Reverse VAT were not well understood by many reporting entities.
- c. The Other Taxes (& Charges) heading under each of the major revenues headings on the reporting template created a lot of confusion between the reporting entities and the Zambia Revenue Authority (ZRA) in allocating payments and receipts
- d. Some companies reported payments to the EPF in ZMK, although the payments are made in US\$ and should have been reported in the currency of payment

The importance of holding training for reporting entities on EITI and reconciliation was underlined by these confusions. Equally, the need for ZRA to hold regular consultative workshops with the extractive industry was underscored during the reconciliation exercise.

- iii. Payments to ZRA by extractive companies which ZRA classifies as “Unallocated Receipts” caused material differences in the reconciliation. It is important that ZRA improves identification and correct allocation procedures for all payments made by extractive companies.
- iv. There were difficulties in reconciling bulk and material payments to ZRA caused, it appears, by the internal processes currently employed by some of the extractive industry reporting entities, in particular the large mining companies, as they relate to internal procedures between their accounting and treasury staff. These resulted either in follow ups not being made with ZRA or requisite proof of payments not being collected by such entities.
- v. The ZEC and the extractive industry companies need to find a common ground for reporting Social Responsibility and Payments in Kind which have not been reported well at all, and in most cases not reported at all.
- vi. Letters confirming the audit of the Ministry of Finance and National Planning, The Ministry of Mines, Energy and Water Development, the Ministry of Lands, Natural Resources and Environment Protection and the Zambia Revenue Authority were received from the Office of the Auditor General.
- vii. there were few instances where reporting companies obtained confirmation from their auditors on the reporting templates
- viii. During visits to company premises for reconciliation meetings, gaining entry and access to the premises of some of the reporting entities of Asian origin in the absence of very senior management from the company was challenging on occasion.
- ix. Details of the location of some of the companies provided to us were in some cases not accurate, causing difficulty in locating and attending reconciliation meetings.

2.5 COMPLETENESS AND ACCURACY OF DATA

Based on the list of entities specified by the Council to be included in the reconciliation, we comment on their participation in the reconciliation.

- i. All central government entities included in the reconciliation scope have returned reporting templates, with the accompanying declaration signed by the Permanent Secretary

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- ii. All local government entities included in the reconciliation scope have returned the reporting templates, except
 - Lufwanyama District Council
- iii. All local government template declarations were signed by a senior official, except
 - Lufwanyama District Council
 - Kabwe District Council

The accounting records for Lufwanyama District Council were removed from site by Government investigative agencies in pursuant of a matter that they were following up on. Accordingly, the council was unable to report in the absence of the underlying and supporting records.

- iv. All companies included in the reconciliation scope have returned templates, except
 - BHP Billiton Inc.
 - Zambian Non Ferrous Metals Exploration & Construction Co Ltd

BHP Billiton closed its operations in Zambia during the course of the reporting year and no longer has a local representative, other than the requisite lawyers, Messrs Corpus Globe to handle legal matters, to report on the company's payments to government and its agencies.

We were unable to contact Zambian Non Ferrous Metals Exploration & Construction Co Ltd using the contact information provided, nor based on our own research.

The receipts reported by government in respect of these companies were:-

- | | |
|-----------------------------|---------------|
| • BHP Billiton | ZMK 12,413 bn |
| • Zambia Non Ferrous Metals | ZMK 1,062 bn |

In the context of government receipts of ZMK 3,798,793 bn, these amounts are not considered material.

- v. All company template declarations were signed by a Board level or senior level manager, except for:-
 - First Quantum Mining and Operations Ltd
 - BHP Billiton Inc. & Zambia Non Ferrous Metals (non-reporting as explained above)
- vi. For any update to the information provided on the original data collection templates, supporting documents were always required
- vii. Companies were requested to obtain confirmation from their auditors that nothing came to the auditor's attention which would lead the auditor to believe that the information disclosed in the template did not represent a true and fair summary of the payments made, and was prepared in accordance with the template instructions.

The information provided by companies in this respect is set out in Appendix 8.6.

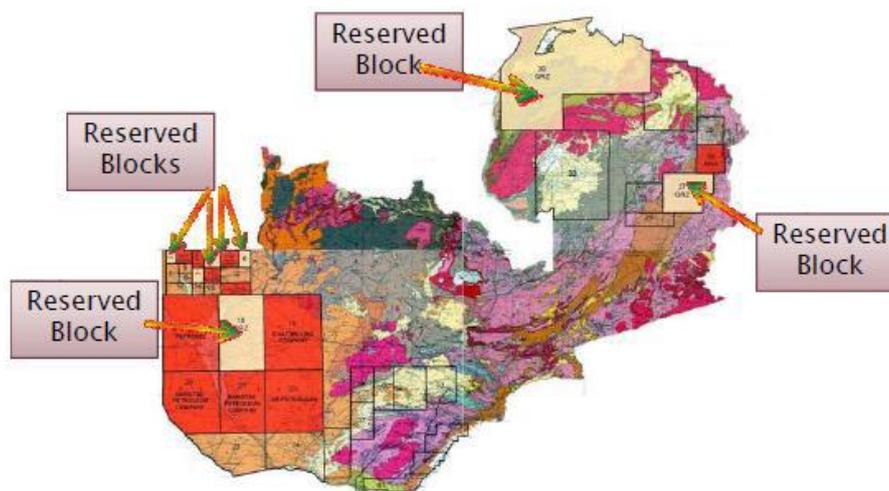
- viii. The Auditor General issued letters confirming that the accounts for the government agencies reporting in the 2010 reconciliation were audited under international standards.

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3 OVERVIEW OF THE EXTRACTIVE SECTOR IN ZAMBIA

3.1 OIL AND GAS SECTOR

Initial oil and gas exploration has been carried out by the government in the indicated blocks; it has shown indications of the presence of oil and gas. However, no major investors have considered the reserves to be economically viable, in part because of the poor infrastructure in the Western province, which is the focus of exploration activities.



Petroleum exploration and production are regulated by Act No. 10 of 2008 [the Petroleum (Exploration and Production) Act of 2008].

In December 2009 the Ministry of Mines and Minerals Development opened a tender process for 23 blocks for oil and gas exploration. The bids were under evaluation in mid-2010, at which time it was reported that the Government was finalising new petroleum regulations, further to Act No. 10 of 2008 [the Petroleum (Exploration and Production) Act of 2008]. It was subsequently reported that exploration companies from the United Kingdom, the United States and Canada, in addition to three Zambian companies, had been selected for award of exploration licences in November 2010.

Apparently promising indications of hydrocarbon resources have been identified in the western part of the country, particularly in North Western Province, in areas close to the border with Angola. A second round of bidding has offered exploration blocks in Northern, Southern and Luapula provinces.

3.2 MINERAL SECTOR

3.2.1 BACKGROUND

Ancient workings and old smelter sites attest to copper extraction by the indigenous African population before the advent of 20th century exploration and mine development. The first commercial mine in Zambia, then Northern Rhodesia, was opened in 1928 at Luanshya. This marked

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the first stage of modern development of the major copper-cobalt resources of the area which became known as the Copperbelt Province. The copper-cobalt mineralisation is strata-bound and extends across the border into the Katanga region of the Democratic Republic of Congo (DRC).

Mineral resources throughout the territory of Zambia are varied, although the copper-cobalt mining industry has by a very large margin, been the most important mining sector contributor to the Zambian economy. The production of copper and cobalt is intimately associated together and in a number of areas of the Copper belt the sulphide mineralization with primary copper content contains significant cobalt content which can be recovered as an economically important by-product. Related to this occurrence, significant tonnages of slag produced and discarded in the historically early periods of copper production contain important amounts of recoverable cobalt. Other economically significant base metal mineralisation occurs in the Copper belt region and sporadically elsewhere in the country, also generally associated with the Katanga Supergroup succession. Historically, production has been obtained from operations for copper-gold, copper-zinc, lead-zinc, nickel and pyrite (sulphide) mineralization. Some limited areas of tin and manganese mineralization are known and some alluvial gold has been found. Silver has been produced as a by-product from the smelting and refining of lead-zinc ore. Uranium occurs locally associated with copper mineralization and is also known in sediments of the Karoo System.

Deposits of gemstones, commonly occurring in narrow veins of the Basement Series, or as more widespread alluvial derivatives of these, occur widely through the country. The sector is dominated by the mining of emeralds, amethysts, aquamarines and garnets. Gemstones are mainly in rural areas from three provinces: emeralds from Ndola Rural area (Copper belt Province), aquamarine from the Lundazi area (Eastern Province) and amethyst from Kalomo – Siavonga (Southern Province). With reference to the World Bank Country Economic Memorandum 2004, it has been quoted (Lungu & Shikwe 2006) that Zambian emeralds account for approximately 20% of world production.

Coal, limited to the sedimentary sequence of the Karoo System, has been mined in the Zambezi valley since the late 1960s and continues to be produced in the current operations of Maamba Collieries and in the small scale underground operations of Collum Mine. Production of industrial minerals is dominated by the quarrying of limestone for lime and cement production. Quarrying of limestone in the Copper belt, linked to the burgeoning copper industry, commenced in 1931, with production from Ndola Quarry starting in 1933. Limestone quarrying for Lafarge Cement Zambia Plc commenced in 1970.

From the 1930s through to the 1960s, copper mining was undertaken essentially by two major private companies, Roan Selection Trust and Anglo American Corporation, each of which developed a number of principal mining centres with corresponding townships and infrastructure. After independence, the Zambian Government expressed concern that there was a failure by the private companies to inject fresh capital and that the benefits of the copper mining industry were not adequately returned to support living conditions and development in the host nation. In 1969 the planned nationalisation of the copper mining industry was announced, leading to reorganisation of the industry and ultimately to the consolidation of all operations in 1982 into a single state company, Zambia Consolidated Copper Mines Limited (ZCCM). Although a state enterprise, a substantial shareholding (27.3%) in ZCCM continued to be held by Anglo American, with pre-emptive

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rights to buy back shares that the Government might offer in ZCCM before they were offered to others.

Favourable world copper prices had been experienced through the late 1960s and early 1970s, and had led to the Copper belt becoming a dynamic urban and industrial region. In the mining towns the mining companies had undertaken responsibility to construct and manage extensive township infrastructure, including accommodation for management, technical staff and workforce, schools, hospitals, roads and rail infrastructure and water and power supply. These facilities and the responsibility to sustain them passed to ZCCM.

The newly nationalised copper industry was faced in 1974 with a collapse in the world price of copper. In order to maintain the commitment to social provision in its primary industry, the nation sought to borrow on international markets. Continuing depressed copper prices gave rise to a severe debt crisis and as a result investment in the mining industry effectively ceased, with minimal expenditure on exploration and lack of spares for equipment. After 1979 no new mines were opened. Existing mines were faced with extraction from deeper ore bodies with correspondingly increased costs of production. National copper production fell from a high of 750,000 tonnes in 1973 to 257,000 tonnes in 2000.

The 1980s proved a decade of crisis in which Zambia became increasingly indebted to international donors and in particular to the IMF, and was forced to embrace a series of structural adjustment programmes, the economic conditions of which required return to the private sector of key areas of the economy. A privatisation programme commenced in 1992 and the Government became committed to unbundling ZCCM. The 1995 Mines and Minerals Act was introduced to repeal the legislation which regulated the nationalised industry and included incentives for investors in the mining industry. Of particular relevance is the provision in the 1995 Act which permitted Government to enter into Development Agreements with individual companies, under which the Government could extend more incentives than those specifically encompassed in the Act.

Between 1997 and 2000, ZCCM was split up into seven different sales package units. The strategy was to sell majority interests in each of the packages while the Zambian state, through its shares in ZCCM Investment Holdings (ZCCM-IH), now transformed into an investment holding company, would continue to hold minority interests in the companies controlled and managed by incoming investors. It was planned that at a later stage the Government would dispose of all or most of its residual holdings through sale to the Zambian public or to financial institutions in Zambia or abroad.

The sales packages were initially bought by seven multinational mining companies, through corresponding Development Agreements. Purchasers included Anglo American, which chose to take a 65% stake in the sale package designated Konkola Copper mines (KCM) However in 2002 Anglo American made the decision to pull out of Zambia, triggering a further tender and sale process, leading to the sale in 2004 of 51% of KCM to Vedanta Resources.

The Development Agreements, which are specific to individual companies, became to all intents and purposes, confidential documents. Provisions in some, if not all, of the Development Agreements included mineral royalties set at 0.6%, compared to the standard rate of 3% of gross turnover, as allowed for in the Act. Other provisions variously included a concessionary company profits tax rate of 25% for mining companies, as opposed to 35% for other sectors, duty-free import of mining

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equipment, tax deductible status for capital investments and stability agreements of over 15 years, freezing the applicable tax regime. As a general rule the successor companies took on specific assets of ZCCM but did not undertake the environmental liabilities of the previous operator. The Development Agreements reportedly included a negotiated agreement on the extent to which the successor company assumed responsibility for maintaining social infrastructure (schools and hospitals), social amenities, or continued tendering and contracting systems with local suppliers.

While the privatisation process was held by Government to be a success, reflected in growth in production levels, re-opening of old mines and development of new projects, helped to a significant extent by increased world copper prices, nevertheless there was considerable criticism in the country, to a large extent led by Civil Society organisations, that the mining industry was not contributing at an equitable level to the economic and social well-being of the country. In the political arena, voiced concerns focussed on the level of tax revenues paid by the privatised companies to Government, but other commentaries highlighted the poor environmental performance of some companies, casualisation of the labour force, deterioration of communications infrastructure for which companies no longer assumed responsibility, reduced or limited support to social infrastructure and failure to address residual environmental and social liabilities remaining from previous ZCCM commitments, all of which were broadly attributed to the supposedly inequitable conditions permitted within the Development Agreements.

The Government of Zambia responded to concerns on the performance of the privatised mining industry by the introduction of a new Mines and Minerals Development Act 2008. This act repealed the 1995 Mines and Minerals Act and explicitly ruled that no special agreement should be entered into by Government for the development of large-scale mining licences, and furthermore annulled the Development Agreements concluded under the previous act (Sections 159 and 160 of the Mines and Minerals Development Act 2008). This act came into operation on 1st April 2008 and as of that date all operations became governed by the royalty payments specified in the act, being 3% of the “norm value” of base metals produced or recoverable under the licence, while for gemstones this was set at 5% of the gross value of the gemstones produced under the licence.

The Income Tax Act (Chapter 323 of the Laws of Zambia) and recent changes, such as the Income Tax (Amendment) Act of 2008 and Income Tax (Amendment) Act no. 27 of 2009, and the Mines and Minerals Development Act of 2008, address capital allowances, mineral royalties, mining development agreements, the variable profits tax, and the windfall tax. Investment in most types of mineral operations are covered by the Zambia Development Agency Act of 2006, although minerals produced for the construction industry, such as clay, sand, and most types of stone, are excluded. The Environmental Protection and Pollution Control Act of 1990 and its 1999 amendment address environmental issues, including those associated with the mining industry

The mineral legislation of Zambia recognises an important distinction between large scale, small scale and artisanal mining. The key distinctions may be summarised as follows:

- Large scale mining- a prospecting licence, mining licence or gemstone licence may be issued to an international company although it is mandatory to have an office established in Zambia; the area for a prospecting licence may be up to 29,940 cadastre units (a cadastre unit is a quadrilateral of 3.34 ha) and for mining operations up to 7,485 cadastre units

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- Small scale mining- a prospecting licence, mining licence and gemstone licence may only be issued to a person who is a Zambian citizen or a citizen-owned company (as defined under the Mines & Minerals Development Act); the area for a prospecting licence may be up to 300 cadastre units and for mining operations up to 120 cadastre units
- Artisanal mining- a licence is issued only for mining undertaken on a community basis and licence areas may be up to 2 cadastre units.

Minerals legislation also allows for the issue of Mineral Processing Licences and Gemstone Sales Certificates which regulate the processing, value-added upgrading and disposal of mineral production. The mining of industrial minerals can be undertaken through mineral rights issued only to Zambian citizens or citizen-owned companies.

The enactment of the 2008 Mines and Minerals Development Act was seen by some of the companies operating in Zambia as a significant and damaging change to the commercial basis and tax regime under which they were operating; at least one company is engaged in a legal challenge to the annulment of the corresponding Development Agreement. However, despite assertions from some mining companies that the tax and royalty framework was no longer an incentive to mining development in Zambia, there exists a strong level of exploration activity. The Association of Zambian Mineral Exploration Companies comprises over twenty members, of which the majority is directly engaged in exploration activity. While the focus apparently remains on base metal prospects other interests include gold and uranium prospects. Civil Society organisations have generated a high level of commentary on exploration activity and on-going pre-feasibility assessment of uranium resources in Southern Province and also associated with the Lumwana Mine in North Western Province.

3.2.2 CURRENT PROFILE OF MINING IN ZAMBIA

The profile of extractive industry can be summarised in terms of large-scale metal mining, which includes virtually all copper-cobalt production, secondly the quarrying and industrial minerals production including coal production and thirdly the small scale and artisanal mining sector, which generates most gemstone production. A new addition is the formative oil and gas sector.

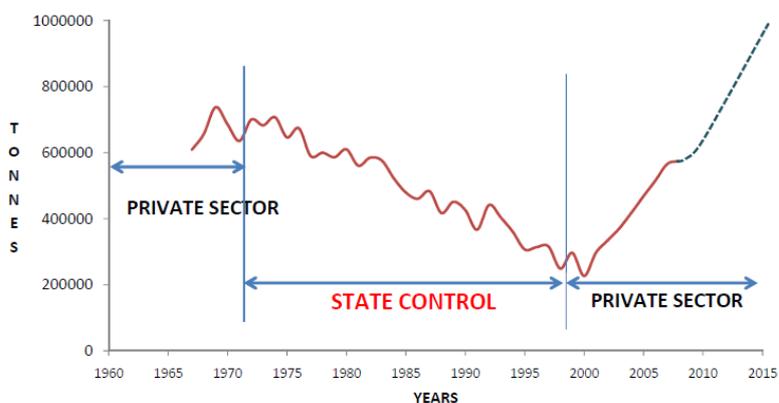
The mining sector is a crucial part of the Zambian economy, with the direct contribution to GDP being approximately 11% (2010), and the indirect possible even up to 50%. This is forecasted to grow from US\$590m (2010) to US\$1.35bn (2015). In 2010, the mining and quarrying sector accounted for 9.9% of Zambia's real gross domestic product (GDP) (at constant 1994 prices) compared with a revised 9.3% in 2009. The country's real GDP increased by 7.6% in 2010; mining and quarrying accounted for 18% of the increase (Bank of Zambia, 2011, p. 32–33, 35).

Copper exports accounted for 78% of Zambia's merchandise exports in 2010. The value of exported copper was estimated to be about \$5.8 billion. The value of exports of cobalt was estimated to be \$304 million, which accounted for 4% of Zambia's exports (Bank of Zambia, 2011, p. 23). The value of imports of oil was estimated to be about \$618 million in 2010; Oil accounted for 13% of Zambia's imports (International Monetary Fund, 2011, p. 20).

On the world scale Zambia continues to be a significant producer and also to have major resources of both copper and cobalt. In 2010 Zambia was ranked as the 7th largest producer of mined

recovered copper in the world (source: US Geological Survey - 2009 production 697,000tonnes Cu). The same source estimated that in 2008 Zambia ranked 9th in the world in terms of identified copper resources, with 3.7% of the known world total, and was ranked 10th in the world in terms of identified reserves with 3.9% of the world total. This mining chiefly occurs in the Copper belt region.

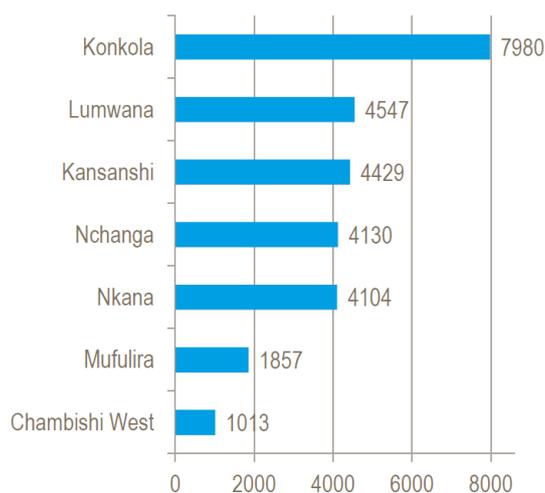
Zambian Copper Production 1966-2010



Source: Ministry of Mines

Business Monitor International has forecast that Zambia's copper output will reach 1.3m tonnes in 2015, which would likely place it among the top 5 copper producers worldwide. Production of copper in 2012 was 824,976t compared to 881,108t in 2011, although exports rose from 832,145t in 2011 to 903,138t in 2012². These levels of production and exports are modest compared to the estimates of reserves in the major mines:

Estimated Contained Copper in Major Mines (kt)



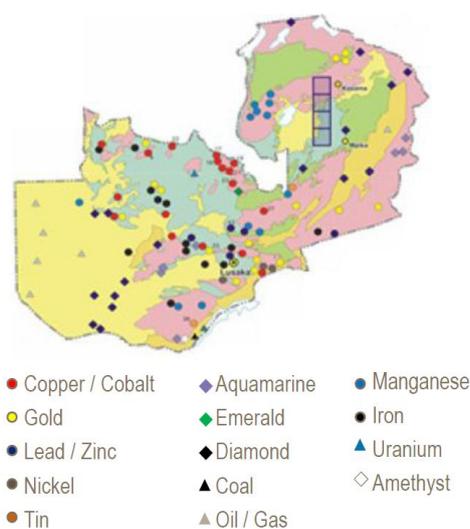
Source: Ministry of Mines

² Mining weekly (2013) "Zambia's 2012 copper output falls y/y to 824 976 t" available at: <http://www.miningweekly.com/article/zambias-2012-copper-output-falls-yy-to-824-976-t-2013-02-04>
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At present four companies own holdings that account for over 80% of copper output: First Quantum Minerals Ltd., Glencore, Konkola Copper Mines Plc, NFC Africa Mining Plc. These holdings include both open-pit and underground mines.

Zambia was also estimated in 2009 to be the second largest producer of mined cobalt metal (source: US Geological Survey - 2009 production of 5,000 tonnes). These figures underline that copper production, and the associated production of cobalt, remains the most significant contributor to the national economy. Between 2003 and 2007, the export value of copper and cobalt together contributed between 66% - 81% annually of total value of exports.

Distribution of Mineral Deposits and Occurrences



Source: Ministry of Mines

However, the extractive industries comprise wider activity than copper and cobalt mining alone. It is estimated that in 2006 the mining and quarrying sector as a whole represented 4.5% of GDP, but represented only 3.8% GDP in 2010; this impacted the growth rate (from 7.6% in 2010 to 6.6% in 2011)³. This includes the quarrying of limestone for the cement and lime industries, significant production of gemstones and coal and mining activity in the small scale and artisanal mining sectors. Between 2009 and 2010 there were notable increases in the production of gold, manganese ore, nickel ore and sulphuric acid.

Manganese

Manganese has recently attracted investments, especially in the Luapula region. This is in part because of the ore's high-grade containment of manganese, which in some areas is as high as 50%. Manganese mining is levied with lower taxes than copper mining.

³ Africa Economic Outlook – Zambia 2012
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Uranium

There are several deposits known to contain high-grade uranium. The government aims to become Africa's 3rd largest uranium supplier after Namibia and Niger. The mining legislation was recently upgraded to take account for uranium and the government started issuing uranium mining licenses late in 2008. There are currently a small number of exploration licenses and over 100 prospecting licenses – both large and small-scale – which include uranium.

Uranium exploration and mining are regulated by the Mines and Minerals Development (Prospecting, Mining and Milling of Uranium Ores and Other Radioactive Mineral Ores) Regulations of 2008.

Coal

Zambia's largest coal producer, Maamba Collieries, is owned by Singapore's Nava Bharat Pte and ZCCM-IH. The Maamba Mine contains low-grade coal and was recently opened after having been closed since the 1980s.

Small Scale Mining

Small scale mining in Zambia covers base metals, uranium, limestone and gemstones. Very basic technologies are used due to lack of funds and knowledge. Partnerships with larger adjacent mines and processing plants are common, which also create boundary issues.

It appears that there is a high level of small scale and artisanal mining activity in Zambia, although by its nature, reliable figures for this activity are not readily available. The sector is dominated by the mining of gemstones. It is noted that for mining operations which do not fall within the scope of large-scale mining licences it is relatively difficult to obtain up-to-date information, reflecting the difficulties of inspection and verification of returns to MMEWD. It is reported (Lungu & Shikwe 2006) that the World Bank Economic Review estimated that in 2004 about 500 firms held gemstone licences, of which 345 firms were holders of emerald mining licences. Artisanal miners apparently prospect also for gold, diamonds and coloured gemstones. The Zambian mineral legislation is focussed to embrace all mineral exploitation, even at very small-scale local level, but it is noted (Lungu & Shikwe 2006) that there are many illegal miners.

The production of gemstones presents a somewhat anomalous situation in that potentially a high value level of production can be produced from a small area, and thus from a small-scale mining licence.

3.2.3 THE LEGAL STRUCTURE OF THE SECTOR

The Mining Industry in Zambia is governed by the Mines and Minerals Development Act 2008 (As Amended to December 2011) and supported by subsidiary legislation and schedules, in particular Statutory Instruments Numbers 84 of 2008 and 34 of 2012.

Part I relates to preliminary issues of Short Title, Interpretation, and Rights to minerals vested in the President.

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Part II provides provisions relating to Mineral Rights.

Part III relates to Large-Scale Mining Operations which is of interest to the Zambia EITI 2010 Reconciliation, and therefore, this report.

Part III of The Primary Act provides the key provisions which govern the extractive industry of interest to the EITI, and is essentially divided into three broad mining categories, namely:

1. Large-Scale Mining Operations.
2. Small-Scale Mining Operations.
3. Artisanal Mining.

EITI Reporting is, for the time being, concerned with Large-Scale Mining Operations, under which three broad areas of mining operations and licensing are provided for under the Mines and Minerals Development Act 2008 (AS Amended) in the following areas:

Division I: Prospecting Licence;

Division II: Large-Scale Mining Licence; and

Division III: Large-Scale Gemstone Licence.

The key administrative section of the Act is Part VIII – General Provisions Relating to Licences and Permits. Part VIII has Sections 96 to 113, among which are:

- I. Annual Operating permit
- II. Holder to have office in Zambia
- III. Alteration of prospecting area
- IV. Alteration of mining area
- V. Mergers or Co-ordination of mining operations
- VI. Production of information
- VII. Register
- VIII. Inspection of Register, and
- IX. Others.

Other pertinent Parts of the Act relate to:

- Safety, Health and Environment Protection
- Geological Services and Mineral Analysis
- Royalties and Charges

Part XIII deals with the Administration provisions of the Act, and deals with the:

- The Director of Mines and other Officers
- Cadastre Offices
- Execution and Delegation of powers and functions.

Parts XIV and XV deal with Appeals and General Provisions respectively. This Section is then followed by Schedules of the Act.

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The Mines and Minerals Development Act 2008 (As Amended to December 2011) is considered to a very comprehensive, modern and robust piece of legislation well placed to provide regulatory oversight in the administration and development of the mining sector in Zambia.

Penalties and Charges:

- Under the current Mines And Minerals Development Act, 2008, the Director, the Director of Mines Safety, the Director of Geological Survey or an authorised officer may, at any reasonable time, inspect and take copies of any books, accounts, vouchers, documents, maps, drill logs or records of any kind, kept by a holder of a mining right or non-mining right, under or for the purposes of this Act or the mining right or non-mining right.
- A holder of a mining right or non-mining right will also provide such reasonable assistance, as is required to enable the Director, the Director of Mines Safety, the Director of Geological Surveyor an authorised officer to exercise or perform any power or function. Any person who, without reasonable excuse, hinders or obstructs the Director, the Director of Mines Safety, the Director of Geological Surveyor an authorised officer in the exercise or performance of any power or function under this section commits an offence and is liable, upon conviction, to a fine not exceeding five hundred thousand penalty units or to imprisonment for a term not exceeding five years, or to both.
- The Attorney General may demand, sue for, recover and receive all royalties, fees, dues, rents or payments which may become due in respect of any mining right or mineral processing licence or otherwise under the provisions of this Act.
- Under the current Act, a person shall not import or export through the Republic any mineral, ore or mineral product without a permit issued by the Director. A person who contravenes this commits an offence and is liable, upon conviction:
 - a) in the case of an individual, to a fine of five hundred thousand penalty units or to imprisonment for a term not exceeding five years, or to both; and
 - b) in the case of a body corporate or un-incorporate body to a fine of one million penalty units.
 - A person intending to import or export through the Republic any mineral, ore or mineral product shall apply for a permit to the Director in the prescribed manner and form upon payment of the prescribed fee.
 - The Director shall consider the following in evaluating an application for an import or export permit:
 - c) production by the applicant of a mineral analysis certificate issued by the Director of Geological Survey;
 - d) a verification report from the Commissioner-General of the payment of the mineral royalty made by the source of the mineral, ore or mineral product;
 - e) security clearance by the Zambia Police Force;
 - f) the production returns made in respect of the mineral, ore and mineral products by the holder;

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- g) the validity of the mining right or mineral processing licence which is the source of the mineral, ore or mineral product; and
- h) any other requirement or information that the Director may consider necessary.

Under the Act, The Minister may, by statutory instrument, make regulations for the better carrying out of the provisions of this Act and regulations may provide for:

- a) any matter which, in accordance with the provisions of this Act, may be provided for by statutory instrument or may be prescribed;
- b) the proper and efficient working of prospecting areas, mining areas and mines;
- c) the avoidance of wasteful mining practices or wasteful metallurgical practices;
- d) the inspection of books and documents;
- e) the regulation of all work and machinery connected with prospecting, mineral processing or mining so far as safety and the protection of life are concerned;
- f) the regulation of all matters relating to sanitation and health, including the establishment of cemeteries, in regard to mining areas;
- g) the reporting of cases of accident and death occurring on any prospecting area or mining area in connection with prospecting, mining or mineral processing operations;
- h) the demarcation of prospecting and mining areas;
- i) the circumstances and procedures for referring any matter for determination by an expert;
- j) the manner of making and dealing with applications under this Act;
- k) fees to be paid by a holder of a mining right or non-mining right;
- l) the making of applications for permits for mineral analysis laboratories and geological or mining consulting firms and the regulation of the laboratories and firms; and
- m) fees and annual charges to be specified under this Act.

The Minister responsible for finance may, after consultation with the Minister of Mines, by Statutory Instrument, make regulations from time to time for the better implementation and operationalisation of the Act.

3.2.4 LICENSING

Three types of licence are available to the large-scale operator:

- **Prospecting Licence** - this confers the right to prospect for any mineral over any size of area for a period of 2 years, and is renewable.
- **Retention Licence** - this confers the right, subject to the Minister's agreement, to retain an area over which feasibility studies have been completed but which cannot economically be developed at the time due to unfavourable market conditions. The size of area may be similar to that covered by a prospecting licence, or a smaller area as redefined by the licence holder.
- **Large Scale Mining Licence** - this confers exclusive rights to carry out mining operations and other acts reasonably incidental thereto in the area for a maximum of 25 years. The area to be held should not exceed the area required to carry out the proposed mining operations.

Applications need to be accompanied by environmental protection plans and by proposals for the employment and training of citizens of Zambia.

Similar rights are available to smaller operators, but on a reduced scale

- **Prospecting Permit** - relates to areas of 10km² and has a duration period of 2 years non-renewable.
- **Small Scale Mining Licence** - relates to areas not exceeding 400 hectares and has a duration period of 10 years renewable.
- **Artisanal Mining Rights** - gives the right to local people to mine on an artisanal basis in an area not exceeding 5 hectares, for a period of 2 years non-renewable.
- **Gemstone Licence** - holders may carry mining operations over an area, not exceeding 400 hectares for a period of not more than 10 years

3.2.5 TAXATION

In general, the Zambian tax regime applying in 2010 also provided the following terms.

- 100% deduction of pre-production expenses and other capital expenditures as defined in the Income Tax Act.
- Accelerated depreciation allowances for expenditure on machinery and equipment which does not qualify for the 100% deduction.
- Carry forward of losses for 10 years.
- Import duties are charged on specific items and the duty varies between 20-40%. But items such as beers, wines, cigarettes, jewellery, cosmetics and luxury capital goods may be charged at higher rates. Certain essential goods such as crude oil, medical supplies and fertilisers are exempt from import duty.
- Pay-as-you-earn system of tax collection applies to tax on personal emoluments. Individuals ordinary resident in Zambia are liable to tax on income flow sources in Zambia.

Royalties

- A royalty is payable calculated as 3%⁴ of the market value of minerals f.o.b. less the cost of smelting, refining and insurance, handling and transport from the mining area to the point of export or delivery within Zambia. Royalty payments may be deferred if the cash operating margin of a holder of a Large Scale Mining Licence falls below zero.

Corporate Tax

- Tax at the rate of 30% of taxable income is levied on exporters of copper and cobalt. Other mineral and "non-traditional" commodities (i.e. excluding copper and cobalt) are taxed at the rate of 15%. Companies listed on the Lusaka Stock Exchange are levied at 30% of taxable income.

Relief from Income Tax

⁴ The royalty rate rises to 6% from April 2013

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An investment in mining, including prospecting, attracts deductions from income tax on the following expenditures:

- capital expenditure; allowances of 100%⁵ on plant, machinery and commercial vehicles; 20% on non-commercial vehicles; 100% on mining industrial buildings (5% on non-mining industrial buildings)
- prospecting expenditure under special circumstances
- mining expenditure under special circumstances
- mining expenditure on a non-producing mine
- mining expenses incurred by a mine of irregular production close to the end of its life

Relief from other Surcharges

- A holder of a mining right is exempt from customs and excise duties and VAT in respect of all machinery and equipment required for exploration or mining activities

Remittance of profits

There are no restrictions in respect of the amount of profits, dividends, or royalties that may be externalized, although a withholding tax of 15% is levied.

⁵ The capital allowance rate on plant and machinery falls to 25% from January 2013
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4 APPROACH, METHODOLOGY AND WORK DONE

4.1 SCOPING OF RECONCILIATION

In accordance with the terms of reference, we carried out a scoping study and reported to the ZEC on matters which should be considered in determining the coverage of the 2010 reconciliation, including:-

- industrial sectors
- revenue flows
- government entities and companies
- materiality threshold for receipts and payments
- matters of public interest but not necessarily part of the reconciliation, for example the ZCCM-IH dividends and price participation receipts from the mining companies
- payments in kind and of a social nature made by the extractive industry where possible

The results of the scoping study were considered by the ZEC and the scope approved by the ZEC is described in the relevant sections below.

During the scoping study, we

- Examined the benefit streams flowing from the extractive sector to government, drawing upon information from
 - a review of the legislation applying to the extractive sector
 - discussions with relevant government ministries and agencies of central government
 - discussions with appropriate government agencies and with companies concerning sub national payments
 - discussions with companies concerning benefit streams they feel should be included
 - discussions with local authorities concerning revenue streams from extractive industry companies
 - discussions with ZRA concerning payment streams received from mining companies
 - discussions and consultations with ZICA regarding wording of audit opinion
 - discussions with the Office of the Auditor General regarding the audits of public entities and local authorities
- Analysed the paying and receiving entities in respect of each flow
- Recommended to the ZEC the materiality threshold to be used to determine the companies to be covered in the reconciliation report, and the companies and government agencies to be included in the report
- Examined the existence of social transfers, infrastructure provisions, barter type arrangements and other in-kind payments in the Zambian extractive sector
- I. Examine the arrangements for government audit and for company audit, and propose options on how the ZEC should meet Requirements 12 and 13 of the EITI Rules and held meetings and consultations done with the Zambia Institute of Chartered Accountants (ZICA) in arriving at the appropriate wording of the Auditor's Report. Meetings were also held with

the Office of the Auditor General to discuss arrangements for Government audit of data submitted.

- Reviewed the templates used in the 2009 reconciliation and discuss with government and company stakeholders their experience of using the templates previously.
- Established a list of all extractive companies holding mineral and petroleum rights, based on information provided by MMEWD and ZRA, identifying for each company:
 - Company's Tax Payer Identification Number (TPIN)
 - Type of company i.e. exploration, mining, quarrying, oil/gas etc.
 - Type of licence(s) held and the licence number(s)
 - The company's main products
 - Output of the main products
 - Company's location(s)
 - Companies reporting for the first time
- Obtained a list of Customs Clearing Agents authorised by ZRA to operate in 2010 from ZRA.
- Request information from companies included in the 2010 reconciliation on their external auditors for 2010, and details of Customs Clearing Agent(s) used in 2010.
- Examine the structure of the extractive sector in Zambia and seek to establish its size, working with the appropriate government ministries and agencies

4.2 ELEMENTS OF THE RECONCILIATION WORK

In carrying out the reconciliation, we:

- Submitted the reporting template directly to each Government agency and to each of the reporting extractive companies
- Requested government entities and companies to have their reporting templates certified by their auditor before submission for reconciliation
- Collated the templates returned by reporting entities and established a database, identifying discrepancies between receipts reported by government and payments reported by companies
- Liaised with reporting government agencies and companies to understand the reasons for discrepancies, including visits to site to obtain information from the extractive companies and government agencies
- Analysed and reconciled data submitted by extractive companies and Government agencies in the reporting templates for the fiscal year 2010
 - Meetings were held with ZRA, government agencies and reporting companies to investigate reported differences.
 - All reporting extractive companies and government agencies were requested to support their reported figures with supporting documents and vouchers; including evidence of payments and receipts.
 - All reconciling items producing by all parties were scrutinised and examined for authenticity, ownership, accuracy, validity, occurrence in terms of the reporting period, i.e. 2010, and other relevant attributes.

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- All reconciliations and non-reconciled differences were signed off by the reporting entities as evidence and proof of the work done.
- Senior management of reporting entities were also required to sign off all reconciliations.
- Reporting templates, were amended, were signed off and officially stamped by senior management officials.
- Reporting schedules were amended as appropriate and summaries prepared, including supporting Excel Spread Sheets.
- Prepared this reconciliation report on government receipts and company payments, highlighting the reconciled discrepancies and the unresolved discrepancies and making recommendations on action to be taken on the unresolved discrepancies, and for improvement of the implementation of EITI in Zambia more generally; and containing other information as required under the Terms of Reference and EITI Requirements

5 SCOPE OF THE RECONCILIATION

We consulted with government agencies and reviewed published data to seek to establish the size of the extractive sector in Zambia, and its contribution to the economy and to government revenues, as part of the process to establish the prospective scope for the 2010 ZEITI reconciliation (see section 5.2).

5.1 FLOWS AND ENTITIES INCLUDED IN THE RECONCILIATION

After discussion, the ZEC determined that the reconciliation should cover the following areas.

5.1.1 FLOWS INCLUDED

The flows to central and local government described in the following table have been included in the 2010 ZEITI reconciliation.

Tax	Description
ZAMBIA REVENUE AUTHORITY	
PAYE	This is a tax withheld or deducted from employees' wages and paid directly to the government by the employer.
Import VAT	Value Added Tax paid by the Extractive Companies on the import of goods into Zambia.
Mineral Royalty	Mineral royalties are a form of consideration, usually based on the volume or price of base metals and is levied by reference to LME prices or for the right to exploit specified base metals.
Company Income Tax	All Extractive Companies are taxed on their taxable income which is determined in line with the Zambian Income Tax Act (Chapter 323 of the Laws of Zambia). Income tax in this case relates to revenue /profits made by a limited company less all tax allowable expenditure.
VAT (Non- Refundable)	Defined as a consumption-based tax that is levied in the net of output charged on sales and input VAT paid on purchases made by the business.
Import Duty	Customs/Import duty levied by ZRA on specified imports into Zambia.
Withholding Taxes	A tax levied on income (consulting fees, commissions, royalties, rent, interest, dividends and payments to non-resident contractors). The payer is required to pay the tax deductible to the ZRA.
Excise Duty	A tax on particular goods or products whether imported or produced domestically, imposed at any stage of production or distribution, by reference to weight, strength or quantity of the goods or products, or by reference to their value.

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Property Transfer Tax A tax providing that whenever property is transferred, tax is charged upon and collected from the person transferring the property. It is calculated on the realisable value of the property that is the price at which it could, at the time of transfer, be sold on the open market.

Variable Profit Tax A tax on company profits under the Income Tax Act. The company tax rate is 30%. Variable profit tax rate applies for profits that go above 8 % of the gross sales. ZRA has a formula to calculate the variable profit above the threshold. Variable profit tax can go up to a maximum 45%.

Other taxes (ZRA) A heading to be used by entities in case there were any material receipts or payments not listed elsewhere on the ZEITI template

MINISTRY OF MINES, ENERGY AND WATER DEVELOPMENT

Application fees Fees paid on application for a licence (prospecting or mining)

Licence fees Fees payable by companies or individuals applying for the grant of a mining licence or permit

Area charges Fees payable to the MMEWD by extractive companies following the grant of a permit to conduct mining operations, based on the licensed area

Valuation Fees Fees paid for laboratory analysis of mineralogical samples.

Annual Operating Permit Annual fee payable by all Extractive Companies to the MMEWD in order to procure the appropriate permits from the Director of Mines Safety to undertake mining operations.

Environmental protection fund Charge to extractive companies for environmental restitution purposes (see further section 5.4)

Other fees & charges

LOCAL COUNCILS

Annual Business Fees Operating fees paid to the local councils in which the Extractive Companies operate.

Property Rates These are property taxes payable to the Local Authority or Lusaka City Council by property owners whose properties are listed on the Valuation Roll.

MINISTRY OF LANDS NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Ground Rent Annual fees made to the Ministry of Lands, Natural resources and Environmental Protection in respect of leasehold property by individuals and companies.

Consideration Fees These are fees paid to show that the offeree to land has accepted the offer. They are only paid once at the beginning when the land has been earmarked In short, payment of these fees symbolizes acceptance to the land.

Registration Fees These are service charges that go towards the process of registration and formulation of the certificate of title at the Lands Deeds Department.

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Preparation Fees These are service charges towards the preparation of the lease document by the office of the Commissioner of Lands before it goes to the Lands and Deeds Department for final registration and formulation.

MINISTRY OF FINANCE AND NATIONAL PLANNING

Dividends from Government Shares This is distribution of profits in proportion to the shares directly held in the Extractive Company by GRZ. However as GRZ only has a direct investment in ZCCM – IH Plc, payments made by the Extractive Companies to ZCCM – IH Plc are excluded from the reconciliation

In addition, ZCCM-IH Plc is required to report (where applicable – see section 5.3) dividends and price participation fees received from extractive companies in which it has shareholdings.

Companies were also requested to report social payments made in 2010, on a voluntary disclosure basis.

5.1.2 GOVERNMENT ENTITIES INCLUDED

The government entities included in the 2010 reconciliation are:-

- Zambia Revenue Authority
- Ministry of Mines and Mineral Development
- Ministry of Energy and Water Development
- Ministry of Lands, Natural Resources and Environmental Protection
- Ministry of Finance and National Planning

- District Councils, as follows:-
 - Chililabombwe
 - Chingola
 - Kafye
 - Kalulushi
 - Kitwe
 - Luanshya
 - Lufwanyama
 - Lusaka
 - Mazabuka
 - Mufuriladi
 - Mumbwa
 - Ndola
 - Sinazongwe
 - Solwezi

5.1.3 COMPANIES INCLUDED

The companies included in the 2010 reconciliation are:-

No	Company Name	Included in 2009
1	KANSANSHI MINING PLC	Y
2	KONKOLA COPPER MINES PLC	Y
3	LUMWANA MINING COMPANY LIMITED	Y
4	MOPANI COPPER MINES PLC	Y
5	FIRST QUANTUM MINING AND OPERATIONS LTD-BM M S	Y
6	CHIBULUMA MINES PLC.	Y
7	NFC AFRICA MINING PLC	Y
8	LA FARGE CEMENT ZAMBIA PLC	Y
9	NDOLA LIME COMPANY LIMITED	Y
10	CNMC LUANSHYA COPPER MINES PLC	Y
11	CHAMBISHI METALS PLC	Y
12	CHAMBISHI COPPER SMELTER LIMITED	Y
13	BHP BILLITON WORLD EXPLORATION INC	Y
14	KAGEM MINING LIMITED	Y
15	ALBIDON ZAMBIA LIMITED	Y
16	SCIROCCO ENTERPRISES LIMITED	Y
17	SINO-METALS LEACH ZAMBIA LIMITED	Y
18	ZAMBIAN NONFERROUS METALS EXPLORATION & CON CO LTD	
19	MAAMBA COLLIERIES LIMITED	Y
20	SAN HE (ZAMBIA) LIMITED	Y
21	ZAMBEZI PORTLAND CEMENT LIMITED	
22	ZCCM INVESTMENTS HOLDINGS PLC	Y

5.2 DETERMINATION OF SCOPE OF THE RECONCILIATION

According to information made available by the MMEWD, there were no operational activities carried out by extractive companies during 2010 in the oil and gas sector. GRZ has recently started the prospecting research for Oil and Gas. During 2010, only bidding procedures had been carried out for the award of blocks. The Geological Survey Department of MMEWD has confirmed that no bids or exploration licences were awarded in the year 2010. The reconciliation is therefore limited to the mining sector.

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We examined information from the MMEWD, ZRA, MoFNP and other published sources concerning

- licensed companies
- annual production
- aggregate government revenues and the contribution of the sector to the Zambian economy

and reported our findings to the ZEC to inform their decision on the scope of the reconciliation.

5.2.1 ACTIVE LICENCES

Information from the MMEWD shows that there were 634 active licences in operation by companies and individuals in 2010.

Code	Description	Active licences in 2010
AMR	Artisanal Mining Right	2
GML	Gemstone Mining Licence	76
LML	Large Scale Mining Licence	51
LPL	Prospecting Licence	108
SML	Small Scale Mining Licence	242
SPP	Prospecting Permit	155
Total		634

5.2.2 TOTAL PRODUCTION

There are various sources of information on the scale of the mining industry in Zambia, and to illustrate the size of the mining sector, we set out in this section information which has been provided to us as well as information which is publicly available.

5.2.2.1 MMEWD production report

Figures produced for production of minerals in 2010 compiled by MMEWD show:-

Mineral type	2010 production	
	Tonnes	Kg
Precious & semi-precious metals		
Copper	762,521	
Cobalt	1,327	
Gold		1,985
Nickel concentrate	33,350	
Industrial Minerals & others		
Copper Ore	14,390	
Cobalt Ore	1,908	
Alluvial Gold		0.2
Manganese ore	74,422	
Ferro-manganese	4,631	
Iron Ore	2,721	
Zinc Ore	350	
Zinc Concentrate	3,150	
Coal	95,500	
Aggregates	272,797	
Mica/Quartz	1,089,380	
Limestone	1,247,623	
Quick Lime	164,252	
Hydrated Lime	20,579	
Cement	783,642	
Gemstones		
Emerald & Beryl		55,633
Amethyst		1,066,479
Acquamarine		364
Silica/Rose Quartz		366,712

Compiled by Mines Development Department, Ministry of Mines

MMEWD said that tonnages for precious and semi-precious metals represent finished product.

5.2.2.2 2010 Annual Economic Report

The Annual Economic Report published by MoFNP shows for 2010:-

Table 8: Mineral Production by Major Mines, 2008 - 2010

	2008	2009	2010	% change 2010/09
Copper (mt)	569,891	661,179	767,008	16.0
Cobalt (mt)	4,139	1,462	2,127	45.5
Gold (kg)	1,800	2,889	1,985	(31.3)
Nickel (mt)			2,818	-

Source: Ministry of Mines

The Report adds that in addition to the copper produced by the major mines, 85,557 Mt was produced by small scale mines resulting in total production of 852,565 Mt

5.2.2.3 Other published information

We have briefly researched other published information on production volumes for 2010. This differs from the MMEWD figures in some respects, and the ZEC may be interested in examining the reasons for such differences, both as a means of gaining greater understanding and also in order to improve the quality of information published about the Zambian mining sector.

For example, the US Geological Society publishes information on mineral production in countries around the world. In the case of Zambia, this shows:-

	2010 production	
	Tonnes	Kg
Copper		
Mine output, Cu content	820,000	
Metal, smelter, primary	490,000	
Refinery, primary	530,000	
Cobalt	1,092	
Gold		3,400
Nickel concentrate	2,809	
Silver		6,500
Manganese ore	120,000	
Ferro-manganese	40,000	
Coal	200,000	
Cement	1,126,728	
Emerald & Beryl		26,586
Amethyst		1,300,000
Tourmaline		20,000

Source: USGS Mining Year Book 2010

5.2.2.4 Published information from mining companies

The mining companies also publish production data, in their annual reports, in production reports, through press releases on investment plans, in connection with fund raising and so on. Our terms of reference do not cover an examination of this area, and we have not conducted an extensive review of company data.

The information published by companies generally distinguishes between ore mined, concentrate, and finished product and usually contains comment on the concentration of metal (copper, etc.) in semi-finished products. It is essential to have more detailed information of this sort for proper transparency and understanding of the mining production and activity.

By way of example, production from the Lumwana mine in 2010 is described by Equinox (the owner of the mine at the time) as copper concentrate, while the MMEWD state that it is finished product.

5.2.2.5 Summary

Information from the MMEWD, USGS and other sources gives an appreciation of the size of the mining industry in Zambia. We have highlighted discrepancies between the various published information and a need for consistency of definition and presentation and greater detail.

We recommend that this should be considered further by the ZEC, as an area for examination in the 2011 EITI reconciliation.

5.2.3 GOVERNMENT REVENUES IN AGGREGATE

5.2.3.1 Contribution of the extractive sector to the Zambian Economy

The contribution of the mining industry to Zambia's economy is shown in the table below.

GDP by Sector	Year 2010
Agriculture, forestry, fishing & hunting	21.0%
Construction	21.0%
Wholesale and retail trade, hotels and restaurants	17.5%
Finance, real estate and business services	9.6%
Manufacturing	9.1%
Other services	8.6%
Transport, storage and communication	4.1%
Mining and quarrying	3.8%
Electricity, gas and water	3.0%
Public administration, education, health	2.3%

5.2.3.2 Contribution of the extractive sector to government revenues in 2010

The Annual Economic Report published by MOFNP, contains a table showing the sources of revenue for the Zambian government (excluding revenues paid directly to local government). This is a useful

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guide to which sources of income are material to overall government revenues, and while the report is not intended to provide information by sector, there is nevertheless some information highlighted in respect of the mining sector.

Overall revenue performance for 2010 is set out in Table 35, and the provisional revenue figures for 2010 shown in that table are presented in the following chart.

Table 35 (extract):

Revenue Performance, January - December 2010

		K billion
I.	Revenue and Grants	15,198.4
II.	Revenue + General Budget Support + Sector Budget Support	14,817.2
III.	General Budget Support	14,721.0
IV.	Revenue	13,809.1
V.	Tax	13,112.1
	Income taxes	7,326.3
	<i>Of which: mining</i>	1,500.2
	Value-added tax	3,159.5
	Domestic	515.0
	Import	2,644.5
	Customs and Excise Duties	2,626.3
	Excise taxes	1,376.7
	Customs duties	1,249.6
VI.	Non-tax	697.0
	User fees and charges	412.9
	o/w AIA	56.3
	Dividends and interest	23.0
	Medical levy	24.2
	Exceptional revenues	236.8
VII.	Grants	1,389.4

Source: Ministry of Finance and National Planning

Under the heading "Income taxes" – part of Section V, Tax - are included

- Corporate income Tax (CIT);
- Pay as you earn (PAYE);
- Withholding taxes;
- Property transfer tax (PTT); and
- Mineral Royalties

In the absence of figures for revenue from the extractive sector for 2010, which have not yet been collected and reconciled, we can use figures for 2009 to assess the significance of the sector's contribution to government revenues.

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In 2009, government revenues from the sector reported as part of the EITI reconciliation compare to the Annual Economic Report as shown in the table below.

Government receipts from extractive sector 2009			
	2009 Government EITI reports (final)	2009 Annual Economic Report (MOFNP)	Extractive sector proportion
	K billion	K billion	
Corporate income Tax (CIT);	408.5		
Pay as you earn (PAYE)	743.0		
Withholding taxes	84.7		
Property transfer tax	0.4		
Mineral Royalties	279.4		
Sub-total: taxes	1,516.0	5,072.6	29.9%
Non-refundable VAT	245.5	307.1	79.9%
Import VAT	583.6	2,168.4	26.9%
Excise duties	1.1	1,023.9	0.1%
Customs duties	158.8	1,088.8	14.6%
Other taxes (ZRA)	21.2		
Total	2,526.2	9,660.8	26.1%

In summary, the mining and quarrying sector is reported as contributing 3.8% of Zambia's GDP in 2010, while the contribution of the sector to government revenues in 2009 – according to the information in the 2009 EITI report – was 26.1%.

5.2.3.3 Review of 2009 government revenues

In comparing the revenues reported in the Report for 2009 with the revenues reported in the 2009 EITI reconciliation, for those lines where it is possible to make a direct comparison, we observed some unexpected discrepancies, summarised in the table below:-

	2009 Annual Economic Report	2009 EITI Reconciliation	
		Government	Companies
	<i>k billion</i>	<i>k billion</i>	<i>k billion</i>
Company tax - mining	401.2	408.5	409.1
Mineral royalty	234.9	279.4	281.3

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This analysis shows that the amounts reported by government for the EITI reconciliation, and confirmed by the paying companies (who actually report a higher figure), exceeds the amount reported in the 2009 Annual Economic Report.

It is not part of our remit to investigate this difference, but we brought the difference to the attention of MOFNP.

5.2.4 EXAMINATION OF FLOWS TO BE REPORTED FOR 2010

During the scoping phase, we consulted government agencies which receive flows from the extractive sector.

5.2.4.1 Zambia Revenue Authority

The Large Taxpayer Office (Mining Unit) reported collections of a total amount of ZMK 3,671 billion from 126 extractive companies operating in the mining sector during 2010. These companies included both those holding licences to exploit or explore for minerals and also those which provide services to the mining industry.

The table below is a summary of information provided during the scoping phase by the Large Taxpayers Office of the ZRA of the payments made by extractive companies during 2010 for the material payment headings.

Tax	Amount (ZMK millions)
PAYE (Pay-As-You-Earn)	748,910
Import VAT	487,472
Mineral Royalty	392,670
Company Income Tax	1,256,596
VAT (Non-refundable)	568,756
Import Duty	179,625
Withholding taxes	35,755
Excise Duty	1,192
Total	3,670,976

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In addition, payments were reported by ZRA from extractive companies in 2010 as shown in the table below.

Tax	Amount (ZMK millions)
Asycuda Processing fees	1,329
Advance Income tax	2,958
Carbon Emission surtax	36
Excise duty import	3,514
Fuel levy	5
Motor vehicle fee	106
Total	7,948

These latter payments were not included in the scope for the reconciliation because they do not represent material flows from the sector to government.

5.2.4.2 Ministry of Local Government and Housing

The contribution from the Ministry of Local Government and Housing, and specifically the Local Councils, is limited as per 2008 and 2009 EITI reconciliations to the following two fees:

- Property rates; and
- Annual Business Fee.

The selection of these fees was not based on an assessment of information collected in respect of 2010, since MOLGH did not provide any at the time of conducting the scoping survey, rather they were included based upon the information set out in the 2008 and 2009 reconciliations.

These payments are financially immaterial in the context of amounts received by central government, but are included because they are important (and material) to the areas served by the local councils.

5.2.4.3 Ministry of Mines, Energy and Water Development

According to the Cadastre Department there are 10 categories of fees and charges payable by the mining companies to the MMEWD. These fees and charges are:

Payment category

Application fees (new & renewals)

Licence fees (new & renewals)

Area charges

Application fees - compliance

Licence fees - compliance

Alteration - application fees

Alteration - licence fees

Transfer application fees

Transfer licence fees

Search & other fees

The fees and charges payable to the MMEWD shown in the table above may be grouped in four categories:

- Area Charges;
- Application Fees;
- Licence Fees; and
- Search and other fees.

In the 2009 reconciliation exercise, government reported amounts payable in three other categories as follows:

	2009 (ZMK millions)
Annual operating permit	17
Environmental protection fund	10,679
Other fees	66

We did not receive information on the receipts and taxes for 2010 from the MMEWD Accounts Department during the scoping phase; as a result, for the sake of ensuring completeness, we proposed that the 2010 reconciliation exercise should include

- area charges
- application fees
- licence fees
- search and other fees

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- payments made to the environmental protection fund (see section 5.4 for an outline of the operation of this fund)

5.2.4.4 Ministry of Lands

Four types of fees are payable to the Ministry of Lands by the mining companies:

- Ground Rent;
- Consideration Fees;
- Registration Fees; and
- Preparation Fees

In the 2009 reconciliation, the government reported receipts from ground rent of ZMK 129 million. Consideration fees were reported in 2009 at ZMK 12 million, while Registration Fees and Preparation Fees were reported in 2009 as producing less than ZMK 1 million each. Accordingly, it is proposed that only Ground Rent should be reported in the 2010 reconciliation, on the grounds that the other fees listed in this section are immaterial.

5.2.5 SELECTION OF REPORTING ENTITIES FOR INCLUSION IN 2010 RECONCILIATION

It can be seen from the Summary of Government Revenues (Section 5.2.3.2) that the main recipient on behalf of government for payments from the mining sector is the ZRA.

The results of the 2009 EITI reconciliation also confirmed the ZRA as the major recipient of payments from the mining sector. Accordingly, the selection of companies included in the 2010 reconciliation was based on information provided by the ZRA.

The Large Taxpayers Office of the ZRA and the Customs Office provided information on receipts during 2010 from the extractive sector. This showed receipts from 126 companies; the companies included primarily mining companies (operational and in exploration), and also mining services companies without mining operations or licences.

For each company where ZRA reported receipts in 2010 exceeding ZMK 0.5bn, we reviewed the licensing information provided by the Mining Cadastre and identified companies which had mining licences and those which did not, categorising them as “mining companies” and “non-mining companies” respectively. Companies whose reported receipts were less than ZMK 0.5bn were not compared to the licensing information. The examination of the licensing information from the Mining Cadastre revealed the need for improvements to this information (see further section 7.1.6).

The 2009 reconciliation set a materiality threshold which meant that companies making 99.83% of initially reported payments to ZRA were included in the reconciliation. This was achieved by including all companies making payments to ZRA in excess of ZMK 0.5 billion.

The profile of payments to ZRA in 2010, based on the preliminary information provided by ZRA, is set out in the table which follows. The categorisation of companies is on the basis described above.

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Payments to ZRA by mining company in 2010	Number of companies			%age of total payments to ZRA by mining companies	
	Total	Non mining	Mining	In the range	Cumulative
> ZMK 10 billion	17	4	13	98.2%	98.2%
> ZMK 5 billion < ZMK 10 billion	6	1	5	1.1%	99.3%
> ZMK 2.5 billion < ZMK 5 billion	8	5	3	0.3%	99.6%
> ZMK 1 billion < ZMK 2.5 billion	8	4	4	0.1%	99.7%
> ZMK 0.75 billion < ZMK 1 billion	3	2	1	0.1%	99.8%
> ZMK 0.5 billion < ZMK 0.75 billion	4	1	3	0.0%	99.8%
< ZMK 0.5 billion	80			0.3%	100.0%
Total	126	17	29		

A review of this analysis shows that selection of companies holding mining licences and making payments to ZRA in excess of ZMK 2.5 bn would result in the capture of 99.6% of the payments made by mining companies. Given that a number of the 80 companies reported by ZRA as making payments below ZMK 0.5 bn would be non-mining companies (no check was made to determine whether these companies held a mining licence on the grounds that their payments were immaterial), the proportion of payments captured by selection of a threshold of ZMK 2.5 bn is close to 99.8%.

The ZEC determined that all companies holding a mining licence (per the information provided by the Mining Cadastre) and making payments in excess of ZMK 2.5 billion to ZRA (according to the preliminary information provided by ZRA) should be included in the 2010 reconciliation. The detailed list which results from this decision is set out in section 5.1.3.

ZCCM-IH is also included, although it does not hold any mining licences, in the interests of transparency. This materiality threshold captures 99.6% of revenues reported as received by ZRA, and will therefore include all companies making material payments to government.

5.3 ZCCM INVESTMENT HOLDINGS PLC

ZCCM-IH is principally an investments holding company whose main business is undertaking equity investments in various companies or partnerships to increase shareholder's wealth. Although the Company's Articles of Association do not limit the industries in which ZCCM-IH Plc can undertake equity investment, since inception in 2000 most of the Company's equity investments remain in the Zambia mining sector.

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The Government of the Republic of Zambia ("GRZ") holds 87.4% of the shares in ZCCM-IH Plc with the remaining 12.6% being held by private investors (minority shareholders, 2,318 of them). The Company was incorporated in Zambia and has its primary listing on the Lusaka Stock Exchange. ZCCM-IH Plc shares are also traded on the London Stock Exchange and the unregulated market of the Paris Euronext Exchange.

The 2010 Annual Report for ZCCM-IH states that the Company has the following interests in the undernoted companies:

1 Ndola Lime Company Limited	100%
2 Maamba Collieries Ltd	100%
3 Konkola Copper Mines Plc	20.6%
4 Kansans Mining Plc	20%
5 Copperbelt Energy Corporation Plc	20%
6 Luanshya Copper Mines Plc	20%
7 NFC Africa Mining Plc	15%
8 Chibuluma Mines Plc	15%
9 Chambishi Metals Plc	10%
10 Mopani Copper Mines Plc	10%
11 Equinox Minerals Limited (Lumwana Copper Project)	2.97%
12 Albidon Zambia Ltd	1.61%

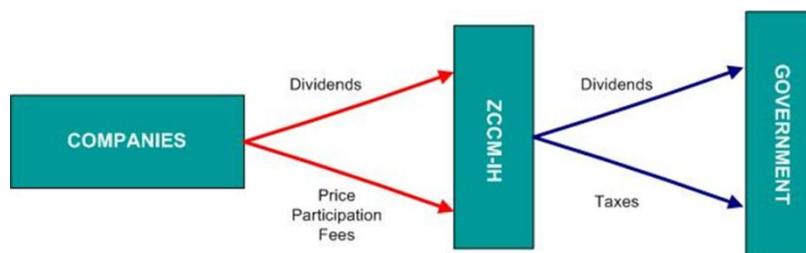
According to the Annual Report, the Company has a conditional future shares election option to take up to 20% shareholding in Konnoco Zambia Limited, a Konkola North Copper Project.

ZCCM-IH is not an extractive company in the sense that it holds licences to extract minerals, was included in the 2010 ZEITI reconciliation on the grounds of transparency of disclosure, given the majority government shareholding.

ZCCM-IH has been treated as a company, with taxes paid to government and dividends paid to the government shareholder reported by the company and government in the usual way.

In addition, ZCCM-IH is entitled to dividends from the private companies in which it holds shares and also to price participation fees from companies, under arrangements dating back to the privatisation of the industry. The ZEC resolved that ZCCM-IH should be required to report amounts received. Whilst these are not payments to government, the ZEC determined that in the interests of transparency, these flows should be reported.

The flows to be reported in respect of ZCCM-IH may be represented diagrammatically as follows:-



5.4 ENVIRONMENTAL PROTECTION FUND

5.4.1 BACKGROUND

The mining of Copper and other mineral resources such as Lead, Zinc, Cobalt has been the backbone of the Zambia's economy for over 90 years. The mining activities had without doubt many negative and sometimes harmful environmental consequences. Thus, over time a historical environmental legacy continues to be created.

The Economic Policy Reform Programme that the Government embarked on and the commencement of the Third Republic in 1991 shifted the Government pre-occupation with its intervention and active participation in the economy. Stricter adherence and implementation of World Bank (WB) and International Monetary Fund (IMF) recommended reforms that included Structural Adjustment Programme (SAP), Economic Liberalization and Privatization had been used as the principle means of expanding the private sector investment while reducing that of Government through the sale of parastatal sector companies. In pursuance of this economic policy, the Government decided to privatize Zambia Consolidated Copper Mines (ZCCM) by unbundling and selling mining companies and other operating assets.

As a consequence of this, Zambia Consolidated Copper Mines (ZCCM) was transformed from a state mining corporation to an Investment Holding Company, ZCCM – Investments Holdings (ZCCM-IH) almost entirely owned by the Government of the Republic of Zambia (GRZ). ZCCM-IH has retained shareholding in the privatized mining companies on behalf of Government in the range of 10 – 20%.

At the time of privatization, with at least 15 different major copper mine sites active in the Copperbelt, most with different management and ownership structures in the sector, the treatment of environmental management has become a complex issue. This has been made more complex with a number of other new operators prospecting as well as developing new mines from the north to the south of Zambia. Therefore, setting up legislation for sustainable exploitation of minerals resources is an important requirement for development of the mining sector. This will be done through an Environmental Protection Fund.

The Government enacted Legislation under the Mines and Minerals Development Act, 2008, which states that there shall be an Environmental Protection Fund. The legislation provides for cash contributions to the Fund by mine operators in form of cash as well as lodgement of other forms of security.

The objectives of the Fund are to:

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- Provide assurance to the Director of the Mines Safety Department that the developer shall execute environmental and social impact statements in accordance with the Mines and Minerals (Environmental) Regulations, 1997; and
- Provide protection to the Government against the risk of having the obligation to undertake the rehabilitation of mining area where the holder of the mining licence fails to do so.

Without a dramatic increase in the capacity of ZEMA and the delegated Authorizing Agencies such as Mines Safety Department to effectively control pollution, the mining sector's environmental mortgage will continue to accrue. To stop this negative impact, the Government established the Environmental Protection Fund (EPF), herein referred to as the EPF.

5.4.2 COMPOSITION OF THE FUND

The EPF has been established with the appointment of EPF members by the Minister responsible for mines.

The EPF Committee is composed of:

- The Permanent Secretary responsible for Mines – Chairperson;
- A representative of the Zambia Environmental Management Agency;
- Director of Mines Safety Department;
- A representative of the Ministry responsible for Finance;, and
- Seven representatives of Mining companies appointed in consultation with a body representing mining companies.

The EPF will meet quarterly, and as when necessary.

The EPF Committee may appoint Technical Sub Committees as and when there are technical concerns and needs to be addressed as well as hire consultants to support the operation of the EPF.

5.4.3 RESPONSIBILITY OF THE EPF COMMITTEE

The Committee is responsible for:

- Determining issues on the use of the Fund and making decisions on the investment matters of the Fund;
- Approving the withdrawals of funds from the Fund;
- Overall good management of the Fund; and
- Consider and approved applications for rehabilitation in accordance with the Mines and Minerals Development Act, 2008.

The Fund is supervised by the Minister by through Statutory Instruments, (SIs) in particular SI No. 102 of 1998. Where harm or damage is caused to the environment or biological diversity, compensation shall include the cost of reinstatement, rehabilitation or clean-up measures which are incurred and where applicable. The EPF is premised on:

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1. The possibility mining safety and environment damage could get worse.
2. The possibility that the service conditions of workers may be affected.
3. The possibility that they could cut down on social responsibility.
4. The possibility of an amplified “resource curse” effect.

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Liability shall also extend to the following:

- a. any harm or damage caused directly or indirectly by the mining operations or mineral processing operations to the economy or social cultural conditions;
- b. any negative impact on the livelihood or indigenous knowledge systems or technologies of any community;
- c. any disruption or damage to any production or agricultural system;
- d. any reduction in yields of the local community;
- e. any air, water or soil contamination or damage to biological diversity;
- f. any damage to the economy of an area or community; and
- g. any other consequential disorder.

5.4.4 Fund Management Principles and Guidelines

The Fund shall operate under some of the following fundamentals and guidelines:

- Cash payment into Fund to be in hard currency.
- The developers contribution to the Fund shall be made in form of a hard currency (Cap. 213, S.76 (2) (b) and S.I 102 of 1998 (Regulation 8 (2))).
- Lodgement of Bond or Guarantee for balance closure costs
- The balance on deposits lodged under S.1. 29 of 1997, Regulation 66 (1), (2) and (3) shall be secured with the Fund by the developer by way of lodgement of a Bond or Bank Guarantee to be determined by the Minister (Cap. 213, S. 76 (1) (b)).
- Funds to be Index-Linked, no interest earned.
- The developer's contribution shall retain its time-value with respect to inflation as calculated relative to hard currency (S.I. 102 of 1998 Regulation (8) (3)). At the expiry of a licence or permit, the developer shall be refunded the amount of any cash deposit that were paid by him to the extent that such monies were not appropriated by government for payment of any progressive rehabilitation costs (Cap. 213, S. 82 (3) (a) and (b)). The refund shall not accumulate interest.
- Only the Fund Committee to Approve Withdrawal from the Fund.
- (S.I. 102, Regulation (3) (5) (b)). Only the Fund Committee is vested with power to authorize withdrawals from the Fund.

5.4.4.1 **Funds to have exclusive application**

In the event that a developer is directed by the Director of MSD to take specific remedial action, and fails to do so, the Director shall execute the remedial action using the developer's contributions to the Fund which becomes recoverable (Cap 213, S.78 (1). The developer's fund so used shall not exceed the amount of cash deposit lodged by him to the Fund (Cap 213, S. 82 (3) (b)). In other words, each developer can use only his contribution and will only get back his contribution.

5.4.4.2 Contribution to be paid over a period of five years, but time runs out

- (S.I. 29 of 1997 Regulation 66 (3); the developers' total contribution to the Fund shall be deposited over a period of 5 years beginning.
- The year the operation commences for Greenfield Investments
- The year the developer submits an approved Environmental Impact Statement (EIS) or project Brief for existing operations.
- Regulation 66 (3) entails that time for depositing funds runs out. All developers of existing facilities that have EISs or Project Briefs which were approved 5 years ago or more are due to pay their contribution in full immediately.

5.4.4.3 Administrative Costs

The Administrative expenses of operating the fund shall not exceed 1% of the total income of the Fund except during the commissioning of the office of the Fund Manager (S.I. 29, 1997 Regulation (5)).

5.4.4.4 Environmental rehabilitation and mitigation (both biophysical and social)

(Cap 213, S.75 (a) and (b) as amended by Act No. 6 2007; S.I. 29 1997, Regulation 3 and Regulation 5); in the event that the developer's activities negatively impact on air, water, soil flora fauna, fish, fisheries, scenic attractions, cultural, archaeological, and historical features and geological interests, etc., the developer is under obligation to mitigate the negative impacts.

5.4.4.5 Fund accounts

The Fund may receive income from additional sources such as:

- Interest and profit earned from Fund investment;
- Government Funding;
- Donor contributions; and
- Other sources

The funds from additional sources shall be put into a dedicated account from where the EPF shall be able to meet the following obligations:

- Long-term Government environmental obligations (e.g. Kabwe Lead remediation, Consolidated Environmental Management Plans (CEMP) obligations on the Copperbelt, and orphaned mine sites around the country;
- External Fund Management cost;
- Community based social projects; and
- Other appropriate expenses as approved by the Fund Committee.

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5.4.4.6 **Classification**

The cash contribution to be made by the developer to the Fund shall be calculated depending on the performance and shall be classified as provided for in the Mines and Minerals Act and Mines and Minerals (Environmental) Regulations (Cap. 213 S. 76; S.1. 29 of 1997, Regulation 66 (1)).

5.4.4.7 **Reimbursement of cash contribution when used (progressive clean-up)**

A developer who fails to comply with the directive from the Director of MSD to meet an environmental obligation within a specified time shall have his cash contribution to the Fund taken and used to meet the environmental obligation and monies so used will be immediately recoverable from the developer (Cap. 213, S.77, 78, 82 (3) (b)).

Contributions to the fund have been reported as part of the EITI reconciliations. The EITI reports for 2008 and 2009, together with the information reported to us on the 2010 data collection templates, show that contributions were made by companies included in the EITI reconciliations for 2008 to 2010 as follows:-

Year	Environmental Protection Fund ZMK bn	Rate of exchange US\$:ZMK	\$ mn	Note
2008	6.85	3,752	1.83	ZMK amount and exchange rate as reported by the Reconciler
2009	10.68	4,665	2.29	ZMK amount as reported by the Reconciler; exchange rate is average rate for 2009 per Oanda, used so that a comparison can be made of the actual US\$ amounts paid
2010	14.88	5,000	2.98	US\$ amount as reported by government, converted to ZMK for comparison with other flows to government

Table 5.1

Payments are made to the Fund in US\$, and are retained in a US\$ bank account. The Fund is audited annually and copies of the audited accounts were made available by the Fund Manager, and examined by the Consultants.

6 RESULTS OF THE RECONCILIATION

6.1 FLOWS TO GOVERNMENT BY ANALYSED BY COMPANY

Total relevant amounts⁶ reported as received or paid by government or companies respectively are reported in the table below, analysed by company.

Summary of total receipts and payments reported by government and companies

Company		2010 Template originally lodged			Adjustments		2010 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
KANSANSHI MINING PLC	ZMK'000	1,466,576,275	1,479,925,638	(13,349,363)	26,997,059	13,555,117	1,493,573,334	1,493,480,755	92,579
KONKOLA COPPER MINES PLC	ZMK'000	593,472,594	565,332,241	28,140,353	745,450	28,301,535	594,218,044	593,633,776	584,268
LUMWANA MINING COMPANY LIMITED	ZMK'000	568,408,143	495,313,298	73,094,845	(1,819,821)	71,314,182	566,588,322	566,627,480	(39,158)
MOPANI COPPER MINES PLC	ZMK'000	364,817,150	350,432,445	14,384,705	(316,764)	13,647,931	364,500,386	364,080,376	420,010
FIRST QUANTUM MINING AND OPERATIONS LTD-BM M S	ZMK'000	265,133,309	203,789,375	61,343,934	9,262,992	69,743,329	274,396,301	273,532,704	863,597
CHIBULUMA MINES PLC.	ZMK'000	149,302,070	146,193,403	3,108,668	2,271,000	4,329,423	151,573,070	150,522,826	1,050,245
NFC AFRICA MINING PLC	ZMK'000	113,930,271	102,029,974	11,900,297	(3,775,320)	7,970,760	110,154,951	110,000,734	154,217
LAFARGE CEMENT ZAMBIA PLC	ZMK'000	50,132,208	47,165,158	2,967,050	-	561,880	50,132,208	47,727,038	2,405,170
CNMC LUANSHYA COPPER MINES PLC	ZMK'000	37,302,380	32,410,737	4,891,643	(156,821)	4,581,242	37,145,559	36,991,979	153,580
ZAMBEZI PORTLAND CEMENT	ZMK'000	26,437,502	29,235,095	(2,797,593)	(93,297)	423,672	26,344,205	29,658,767	(3,314,562)
NDOLA LIME COMPANY LIMITED	ZMK'000	29,300,381	28,162,196	1,138,185	(948,271)	1,213,711	28,352,110	29,375,907	(1,023,797)
CHAMBISHI METALS PLC	ZMK'000	16,206,320	24,557,817	(8,351,497)	6,571,703	(1,042,996)	22,778,023	23,514,821	(736,798)
CHAMBISHI COPPER SMELTER LIMITED	ZMK'000	18,073,846	19,388,692	(1,314,846)	217,799	(409,642)	18,291,645	18,979,050	(687,405)
KAGEM MINING LIMITED	ZMK'000	9,698,995	9,405,196	293,799	(50,883)	50,454	9,648,112	9,455,650	192,462
SCIROCCO ENTERPRISES LIMITED	ZMK'000	9,091,678	9,004,367	87,311	-	104,840	9,091,678	9,109,207	(17,529)
ALBIDON ZAMBIA LIMITED	ZMK'000	19,506,240	8,769,366	10,736,874	-	-	19,506,240	8,769,366	10,736,874
ZCCM INVESTMENTS HOLDINGS PLC	ZMK'000	7,126,114	5,912,914	1,213,200	(531,797)	1,115,566	6,594,317	7,028,480	(434,163)
SINO-METALS LEACH ZAMBIA LIMITED	ZMK'000	5,131,112	7,483,387	(2,352,275)	-	(1,042,862)	5,131,112	6,440,525	(1,309,413)
SAN HE (ZAMBIA) LIMITED	ZMK'000	3,083,820	3,413,118	(329,298)	-	-	3,083,820	3,413,118	(329,298)
MAAMBA COLLIERIES LIMITED	ZMK'000	3,026,285	2,976,126	50,159	-	-	3,026,285	2,976,126	50,159
TOTAL RELEVANT PAYMENTS	ZMK'000	3,755,756,693	3,570,900,543	184,856,151	38,373,030	214,418,142	3,794,129,723	3,785,318,684	8,811,039

Table 6.1

⁶ A relevant amount is a receipt / payment for a flow included in the reconciliation (see section 5.1.1 for a list of these flows).

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The totals above include PAYE reported as received or paid by government or companies respectively, as shown in the table below, analysed by company.

Summary of PAYE receipts and payments reported by government and companies

No.	Company		2010 Template originally lodged			Adjustments		2010 Final reconciliation		
			Company	Government	Difference	Company	Government	Company	Government	Difference
1	KONKOLA COPPER MINES PLC	ZMK'000	229,889,084	228,932,984	956,100	-	956,100	229,889,084	229,889,084	-
2	MOPANI COPPER MINES PLC	ZMK'000	167,612,358	157,348,924	10,263,434	-	10,263,434	167,612,358	167,612,358	-
3	FIRST QUANTUM MINING AND OPERATIONS	ZMK'000	68,685,227	71,330,896	(2,645,669)	12,096,692	9,451,023	80,781,919	80,781,919	0
4	KANSANSHI MINING PLC	ZMK'000	73,761,510	62,525,173	11,236,337	-	11,236,337	73,761,510	73,761,510	0
5	LUMWANA MINING COMPANY LIMITED	ZMK'000	70,900,903	64,201,079	6,699,824	-	6,699,824	70,900,903	70,900,903	0
6	LAFARGE CEMENT ZAMBIA PLC	ZMK'000	14,545,079	23,397,712	(8,852,633)	-	-	14,545,079	23,397,712	(8,852,633)
7	CNMC LUANSHYA COPPER MINES PLC	ZMK'000	21,942,802	20,339,694	1,603,108	-	1,603,108	21,942,802	21,942,802	-
8	NFC AFRICA MINING PLC	ZMK'000	17,677,143	17,677,143	-	-	-	17,677,143	17,677,143	-
9	CHIBULUMA MINES PLC.	ZMK'000	16,431,284	16,446,804	(15,520)	-	(15,520)	16,431,284	16,431,284	-
10	NDOLA LIME COMPANY LIMITED	ZMK'000	11,183,883	10,235,612	948,271	(948,271)	-	10,235,612	10,235,612	-
11	CHAMBISHI METALS PLC	ZMK'000	7,695,551	7,771,319	(75,768)	-	(75,768)	7,695,551	7,695,551	-
12	KAGEM MINING LIMITED	ZMK'000	6,102,531	6,102,531	-	-	-	6,102,531	6,102,531	-
13	ZAMBEZI PORTLAND CEMENT	ZMK'000	4,602,854	5,674,549	(1,071,695)	-	-	4,602,854	5,674,549	(1,071,695)
14	ALBIDON ZAMBIA LIMITED	ZMK'000	6,760,314	5,029,758	1,730,556	-	-	6,760,314	5,029,758	1,730,556
15	ZCCM INVESTMENTS HOLDINGS PLC	ZMK'000	4,872,132	5,464,484	(592,352)	(521,958)	(1,114,309)	4,350,174	4,350,175	(1)
16	MAAMBA COLLIERIES LIMITED	ZMK'000	2,867,691	2,867,691	-	-	-	2,867,691	2,867,691	-
17	SCIROCCO ENTERPRISES LIMITED	ZMK'000	2,316,306	2,316,306	-	-	-	2,316,306	2,316,306	-
18	CHAMBISHI COPPER SMELTER LIMITED	ZMK'000	1,948,972	1,948,972	-	-	-	1,948,972	1,948,972	-
19	SINO-METALS LEACH ZAMBIA LIMITED	ZMK'000	1,344,421	1,344,421	-	-	-	1,344,421	1,344,421	-
20	SAN HE (ZAMBIA) LIMITED	ZMK'000	75,185	68,617	6,568	-	-	75,185	68,617	6,568
TOTAL - PAYE		ZMK'000	731,215,230	711,024,669	20,190,561	10,626,463	39,004,229	741,841,693	750,028,898	(8,187,205)

Table 6.2

CONSULTANCY SERVICES FOR THE THIRD ZEITI RECONCILIATION
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The amounts reported as received or paid by government or companies respectively, excluding PAYE, are reported in the table below, analysed by company.

Summary of receipts and payments reported by government and companies - excluding PAYE

No.	Company		2010 Template originally lodged			Adjustments		2010 Final reconciliation		
			Company	Government	Difference	Company	Government	Company	Government	Difference
1	KANSANSHI MINING PLC	ZMK'000	1,392,814,765	1,417,400,465	(24,585,700)	26,997,059	2,318,780	1,419,811,824	1,419,719,245	92,579
2	LUMWANA MINING COMPANY LIMITED	ZMK'000	497,507,240	431,112,219	66,395,021	(1,819,821)	64,614,358	495,687,419	495,726,577	(39,158)
3	KONKOLA COPPER MINES PLC	ZMK'000	363,583,510	336,399,257	27,184,253	745,450	27,345,435	364,328,960	363,744,692	584,268
4	MOPANI COPPER MINES PLC	ZMK'000	197,204,792	193,083,521	4,121,271	(316,764)	3,384,497	196,888,028	196,468,018	420,010
5	FIRST QUANTUM MINING AND OPERATIONS	ZMK'000	196,448,082	132,458,479	63,989,603	(2,833,700)	60,292,306	193,614,382	192,750,785	863,597
6	CHIBULUMA MINES PLC.	ZMK'000	132,870,786	129,746,599	3,124,188	2,271,000	4,344,943	135,141,786	134,091,542	1,050,245
7	NFC AFRICA MINING PLC	ZMK'000	96,253,128	84,352,831	11,900,297	(3,775,320)	7,970,760	92,477,808	92,323,591	154,217
8	LAFARGE CEMENT ZAMBIA PLC	ZMK'000	35,587,129	23,767,446	11,819,683	-	561,880	35,587,129	24,329,326	11,257,803
9	ZAMBEZI PORTLAND CEMENT	ZMK'000	21,834,648	23,560,546	(1,725,898)	(93,297)	423,672	21,741,351	23,984,218	(2,242,867)
10	NDOLA LIME COMPANY LIMITED	ZMK'000	18,116,498	17,926,584	189,914	-	1,213,711	18,116,498	19,140,295	(1,023,797)
11	CHAMBISHI COPPER SMELTER LIMITED	ZMK'000	16,124,874	17,439,720	(1,314,846)	217,799	(409,642)	16,342,673	17,030,078	(687,405)
12	CHAMBISHI METALS PLC	ZMK'000	8,510,769	16,786,498	(8,275,729)	6,571,703	(967,228)	15,082,472	15,819,270	(736,798)
13	CNMC LUANSHYA COPPER MINES PLC	ZMK'000	15,359,578	12,071,043	3,288,535	(156,821)	2,978,134	15,202,757	15,049,177	153,580
14	SCIROCCO ENTERPRISES LIMITED	ZMK'000	6,775,372	6,688,061	87,311	-	104,840	6,775,372	6,792,901	(17,529)
15	SINO-METALS LEACH ZAMBIA LIMITED	ZMK'000	3,786,691	6,138,966	(2,352,275)	-	(1,042,862)	3,786,691	5,096,104	(1,309,413)
16	ALBIDON ZAMBIA LIMITED	ZMK'000	12,745,926	3,739,608	9,006,318	-	-	12,745,926	3,739,608	9,006,318
17	KAGEM MINING LIMITED	ZMK'000	3,596,464	3,302,665	293,799	(50,883)	50,454	3,545,581	3,353,119	192,462
18	SAN HE (ZAMBIA) LIMITED	ZMK'000	3,008,635	3,344,501	(335,866)	-	-	3,008,635	3,344,501	(335,866)
19	ZCCM INVESTMENTS HOLDINGS PLC	ZMK'000	2,253,982	448,430	1,805,552	(9,839)	2,229,875	2,244,143	2,678,305	(434,162)
20	MAAMBA COLLIERIES LIMITED	ZMK'000	158,594	108,435	50,159	-	-	158,594	108,435	50,159
TOTAL - excluding PAYE		ZMK'000	3,024,541,463	2,859,875,874	164,665,590	27,746,566	175,413,913	3,052,288,029	3,035,289,786	16,998,243

Table 6.3

CONSULTANCY SERVICES FOR THE THIRD ZEITI RECONCILIATION
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6.2 FLOWS TO GOVERNMENT BY PAYMENT TYPE

The amounts reported as received or paid by government or companies respectively are shown in the table below, analysed by payment type.

No.	Tax		2010 Template originally lodged			Adjustments		2010 Final reconciliation		
			Company	Government	Difference	Company	Government	Company	Government	Difference
Ministry of Mines, Energy and Water Development										
1	Application Fees	ZMK'000	15,140	18,974	(3,834)	180	7,670	15,320	26,644	(11,324)
2	Licence Fees	ZMK'000	605,121	17,989	587,132	-	77,440	605,121	95,429	509,692
3	Area Charges	ZMK'000	76,547	204,329	(127,782)	-	18,637	76,547	222,966	(146,419)
4	Valuation Fees	ZMK'000	140,079	24,261	115,818	-	-	140,079	24,261	115,818
5	Annual Operating Permit	ZMK'000	8,830	11,070	(2,240)	-	-	8,830	11,070	(2,240)
6	Environmental Protection Fund	ZMK'000	15,001,309	-	15,001,309	-	14,881,424	15,001,309	14,881,424	119,885
7	Other fees & charges	ZMK'000	731,569	327,034	404,535	-	75,824	731,569	402,858	328,711
	TOTAL - MMEWD		16,578,595	603,657	15,974,938	180	15,060,995	16,578,775	15,664,652	914,123
Zambia Revenue Authority										
8	Import VAT	ZMK'000	451,588,154	436,163,450	15,424,704	(2,345,202)	(6,895,654)	449,242,952	429,267,796	19,975,157
9	Mineral Royalty	ZMK'000	403,726,383	389,249,307	14,477,076	(1,555,285)	2,546,530	402,171,098	391,795,837	10,375,260
10	Company Income Tax	ZMK'000	1,238,199,855	1,240,716,634	(2,516,779)	2,414,920	6,902	1,240,614,775	1,240,723,536	(108,761)
11	VAT (non refundable)	ZMK'000	560,734,358	556,487,507	4,246,851	25,442,897	51,301,213	586,177,255	607,788,720	(21,611,465)
12	Import Duty	ZMK'000	200,604,087	154,847,877	45,756,210	(2,344,107)	43,997,769	198,259,980	198,845,646	(585,666)
13	Withholding Taxes	ZMK'000	73,312,328	28,484,993	44,827,335	(423,341)	31,779,602	72,888,987	60,264,595	12,624,392
14	Excise Duty	ZMK'000	2,046,907	2,374,203	(327,296)	135,141	253,264	2,182,048	2,627,467	(445,419)
15	Property Transfer Tax	ZMK'000	540	-	540	-	-	540	-	540
16	VAT Refunds	ZMK'000	-	-	-	-	-	-	-	-
17	Variable profit Tax	ZMK'000	-	-	-	-	-	-	-	-
18	Other taxes (ZRA)	ZMK'000	37,424,914	7,019,904	30,405,010	1,802,746	37,184,531	39,227,660	44,204,435	(4,976,775)
	Sub-total		2,967,637,526	2,815,343,875	152,293,651	23,127,769	160,174,157	2,990,765,295	2,975,518,032	15,247,263
19	Pay- As-You-Earn	ZMK'000	731,215,230	711,024,669	20,190,561	10,626,463	39,004,229	741,841,693	750,028,898	(8,187,205)
	TOTAL - ZRA		3,698,852,756	3,526,368,544	172,484,212	33,754,233	199,178,386	3,732,606,989	3,725,546,930	7,060,058
Local Councils										
20	Annual Business Fees	ZMK'000	140,698	-	140,698	-	45,000	140,698	45,000	95,698
21	Property Rates	ZMK'000	39,227,772	43,928,342	(4,700,570)	4,618,617	112,452	43,846,389	44,040,794	(194,405)
	TOTAL - Councils		39,368,470	43,928,342	(4,559,872)	4,618,617	157,452	43,987,087	44,085,794	(98,707)
Ministry of Lands										
22	Ground Rent	ZMK'000	936,872	-	936,872	-	21,308	936,872	21,308	915,564
23	Consideration Fees	ZMK'000	-	-	-	-	-	-	-	-
24	Registration Fees	ZMK'000	7,500	-	7,500	-	-	7,500	-	7,500
25	Preparation fees	ZMK'000	12,500	-	12,500	-	-	12,500	-	12,500
	TOTAL - MoL		956,872	-	956,872	-	21,308	956,872	21,308	935,564
Ministry of Finance and National Planning										
26	Dividends from Government Shares	ZMK'000	-	-	-	-	-	-	-	-
	TOTAL - MoFNP		-	-	-	-	-	-	-	-
	TOTAL - excluding PAYE		3,024,541,463	2,859,875,874	164,665,590	27,746,566	175,413,913	3,052,288,029	3,035,289,786	16,998,243
27	Pay- As-You-Earn	ZMK'000	731,215,230	711,024,669	20,190,561	10,626,463	39,004,229	741,841,693	750,028,898	(8,187,205)
	TOTAL RELEVANT PAYMENTS	ZMK'000	3,755,756,693	3,570,900,543	184,856,151	38,373,030	214,418,142	3,794,129,723	3,785,318,684	8,811,039

Table 6.4

6.3 RECONCILIATION ADJUSTMENTS AND UNRECONCILED DIFFERENCES

6.3.1 RECONCILIATION ADJUSTMENTS

The net adjustments made to company templates may be summarised as follows:-

Reasons for adjustments to extractive company templates:	ZMK millions
• Omission of payments from templates	29,547
• Payments not declared on original templates relating to the reconciliation period (1 January to 31 December 2010)	<u>8,825</u>
Total added to / (subtracted from) original templates	<u>38,373</u>

It was observed that there was a tremendous improvement in the quality of information received from extractive companies and the major un-reconciled differences was due to omissions of payments from templates or a lack of understanding on which tax or revenue payment type it was supposed to be entered on the EITI Reporting Templates.

The net adjustments made to Government templates may be summarised as follows:

Reasons for adjustments to government templates	ZMK millions
• Omission of receipts from templates	147,948
• Receipts not declared on original templates relating to the reconciliation period (1 January to 31 December 2010)	66,470
Total added to / (subtracted from) original templates	<u>214,418</u>

The information provided the up to date by Government, ZRA and other Government Bodies shows an accurate status of the reconciliation. The major cause of the un-reconciled differences were due to most tax payments not being allocated by ZRA, and being reported as "unallocated amounts" and omitted taxes, in particular WHT, from the reporting template.

6.3.2 UNRESOLVED DIFFERENCES

The major unresolved differences were:-:

Extractive Company	PAYE	Import VAT	Mineral Royalty	VAT non refundable	With holding tax	"Other taxes" (ZRA)	Others < ZMK 1 bn	Total net difference
Net difference > ZMK 1 bn								
ALBIDON ZAMBIA LIMITED		-1.3	10.4					10.74
FIRST QUANTUM MINING AND OPERATIONS LTD-BM M S		-1.0			2.2			0.86
LAFARGE CEMENT ZAMBIA PLC	-8.5	22.0		-21.0	9.2			2.41
NDOLA LIME COMPANY LIMITED						-1.2		-1.02
SINO-METALS LEACH ZAMBIA LIMITED						-1.0		-1.31
ZAMBEZI PORTLAND CEMENT	-1.1	-1.3		-1.2				-3.31
Sub total	-9.6	18.4	10.4	-22.2	11.4	-2.2	2.2	8.37
Net differences < ZMK 1bn	1.4	1.6	0.0	0.6	1.2	-2.8	-1.6	0.43
Total net differences	-8.2	20.0	10.4	-21.6	12.6	-5.0	0.6	8.80

Table 6.5

By way of explanation:-

- This table shows each payment flow where the unresolved difference between the total receipts reported by government and the total payments reported by the company exceeds ZMK 1 bn.
- Companies where there are no unresolved differences greater than ZMK 1 bn are shown in total on the line "net differences < ZMK 1 bn".

Similarly, only taxes / payment types where the unresolved difference exceeds ZMK 1 bn are shown by name. Where the unresolved difference is less than ZMK 1 bn, the total of such differences is included in the column headed "Others < ZMK 1 bn".

The major un-reconciled differences are attributable to:

- BHP Billiton World Exploration INC who have not reported their payments to Government and its agencies on account of the company having pulled out of Zambia in 2010. No local representative is available to report on the companies payments in the reporting year.
- Zambezi Portland Cement senior management team were deported out of Zambia in the last quarter of the year and the interim management team has made attempts to report the company's payments. However, the Government investigative wings and ZRA are currently in possession of some of the company's accounting records, and therefore differences cannot be vouched or evidence with supporting documents.
- A fair portion of the unreconciled differences is attributable to "un-allocated receipts" by the ZRA.

6.4 ZCCM-IH: DIVIDENDS AND PRICE PARTICIPATION FEES

According to information provided by ZCCM-IH Plc, no price participation fees were paid to ZCCM-IH Plc during 2010. Dividends were received as shown in the table below.

Date paid	Name of company	Net amount	Withholding tax	Gross amount
17-Feb-10	CEC Plc	4,716,867,600	832,388,400	5,549,256,000
26-Mar-10	Kansanshi Mining Plc	86,173,014,000		86,173,014,000
30-Jul-10	NFC Africa Mining Plc	14,185,320,000		14,185,320,000
10-Aug-10	Kansanshi Mining Plc	9,348,988,000		9,348,988,000
09-Sep-10	CEC plc	3,340,289,200	589,462,800	3,929,752,000
Total		117,764,478,800	1,421,851,200	119,186,330,000

Table 6.6

6.5 PRODUCTION DECLARED BY EXTRACTIVE COMPANIES FOR 2010

Companies were asked to submit production figures on the data collection templates; these figures were a voluntary declaration, and not to be reconciled to any information. There was poor compliance with this part of the data collection, with very few companies responding.

For the sake of completeness, an outline of the 2010 production numbers from the extractive companies, as compiled by the Department of Mines, is tabulated below.

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ZAMBIA EXTRACTIVE INDUSTRY 2010 PRODUCTION FIGURES		
COMPANY	METAL	2010
Konkola Copper Mines	Copper (mT)	138,726.00
	Cobalt (mT)	-
Mopani Copper Mines	Copper (mT)	97,945.00
	Cobalt (mT)	790.07
Kansanshi Mining Ltd	Copper (mT)	232,709.00
	Gold (kg)	1,984.62
Chibuluma Mines Plc	Copper (mT)	17,821.90
	Cobalt (mT)	-
Bwana Mkubwa Ltd	Copper (mT)	-
Luanshya Copper Mines/CNMC	Copper (mT)	10,016.88
	Cobalt (mT)	537.13
NFC Africa Mining Plc	Copper (mT)	22,029.91
Lumwana Mining Plc	Copper (mT)	146,690.00
Sino-Metals Leach Plc	Copper (mT)	8,216.00
Electrowinning Resources Ltd	Copper (mT)	288.60
Sable Zinc Ltd	Copper (mT)	1,755.25
Albidon Ltd	Ni Conc (mT)	33,350.00
Other Sources(Small Scale)	Copper (mT)	86,322.00
	Copper (mT)	762,520.54
	Cobalt (mT)	1,327.20
	Gold (kg)	1,984.62
	Ni Conc (mT)	33,350
<i>All quantities are in metric tonnes unless otherwise stated</i>		
<i>Source: Department of Mines</i>		

7 RECOMMENDATIONS

During the course of undertaking the Assignment, we noted areas where improvements could be made, affecting both the conduct of future reconciliations and also the oversight of the ZEC over the EITI process and the scope for expanding the 2011 reconciliation. In this section, we set out our observations and make recommendations to the ZRC for improvements.

7.1.1 UNRESOLVED DIFFERENCES

At the conclusion of the Assignment, we have been unable to obtain explanations for a number of differences between government receipts and company payments. The overall value of the remaining unresolved differences was ZMK 8,811 million, as set out in section 2.1. As a proportion of the receipts reported by government (ZMK 3,785,318 million), the unresolved differences amount to 0.23%. The ZEC has determined that this difference is not material in the context of the 2010 ZEITI reconciliation.

We recommend that the ZEC should appoint a suitable independent party to examine these differences further, with a view to their resolution, and that the result of this exercise should be published. In order to maintain impetus and relevance, this exercise should ideally be completed within six months of the publication of the 2010 EITI report.

7.1.2 NON REPORTING COMPANIES

Two companies included in the scope of the reconciliation did not participate. The ZEC and, in accordance with EITI requirement 11, the government should consider whether any further action is required.

7.1.3 FUTURE EITI SCOPE

EITI requirement 21 encourages multi-stakeholder groups in compliant countries “to explore innovative approaches to extending EITI implementation to increase the comprehensiveness of EITI reporting and public understanding of revenues and encourage high standards of transparency and accountability in public life, government operations and in business.”

We make recommendations which the ZEC could consider in this context, for example

- improving the definition and reporting of production in the mining and general extractive sector
- reconciliation of the ZRA taxpayer database with the MMEWD cadastre
- definition and reporting of social payments by extractive companies
- inclusion of other extractive sectors in the EITI reconciliation

In setting its annual work plan, the ZEC should have regard to the progressive extension of EITI scope.

7.1.4 COMPANY AUDIT

We recommend that the audit opinion used on the data templates for the 2011 reconciliation is specific to the EITI requirements. We suggest as a suitable opinion:-

Dear Sirs,

In connection with the Zambia Extractive Industries Transparency Initiative reconciliation for the calendar years [YEAR], we confirm that

1 we audited the financial statements of [name of reporting entity] for the period(s) [state dates] under International Auditing Standards [or state which standards were applied]. Our reports were unqualified [or state exceptions] and the financial statements were in agreement with the books of account.

2 we have examined the [reporting template] and confirm that the transactions reported therein are in accordance with instructions issued by ZEITI, are complete, are properly described and are in agreement with the books of account for the respective period.

Name

Position within the Audit firm

Name of the Audit Firm (if applicable)

Address of the Audit Firm (or Auditor)

Signature

Date

We also recommend that all major companies should be required to ensure that their auditors submit an opinion on the template data following an “Agreed upon Procedures” engagement, in fulfilment of the government’s obligations under EITI Requirement 12.

Dialogue with the companies should be commenced by the ZEC in advance of commencement of the next reconciliation, so that the companies and their auditors can undertake the necessary planning. There are companies which have been included in all the reconciliations to date, and whose payments have by this measure been material; the ZEC might consider these to be the major companies, thereby avoiding the need to wait for commencement of the next reconciliation.

7.1.5 GOVERNMENT AUDIT

7.1.5.1 Central government

We met the Auditor General to discuss the opinion to be given on government figures submitted on the EITI data collection templates. The OAG confirmed it would be possible to give the necessary form of assurance provided there was adequate time allowed and the work could be included in the work plan for the department’s staff. We were told this would be possible for the reconciliation to be carried out in 2013, if a request were sent in good time from the ZEC.

We recommend that the ZEC should arrange for a request to be made to the OAG in sufficient time for the OAG to plan to give the opinion on the templates for the 2011 EITI reconciliation; the request should on this basis be made during the first quarter of 2013.

7.1.5.2 Local government

The arrangements for audit of local government differ.

We recommend that through the Ministry of Local Government and Housing, which is responsible for the audit of figures from local councils, the local and district councils should be encouraged to engage external auditors to audit their books. The Local Government and Housing should then be required to confirm that the information on the data templates by each local council has been audited, and to state the standards applied in carrying out the audit. In this way, the audit work done by the Office of the Auditor General, to the extent that they have carried audits on grants to local councils, would be augmented and supplemented by external audits.

7.1.6 MINING CADASTRE

The licensing information provided during the scoping phase by the Mining Cadastre generated some queries which, while finally resolved, suggest that the licensing database, and the process of extracting information from the database, require further examination. In seeking to assess whether companies listed by ZRA held mining licences, we were unable to locate information for certain of the companies on the reports provided by the Cadastre. Following a meeting, the particular issues were resolved, but we noted inaccuracies in the preparation of information relating to gemstone companies, due to

- the manual effort required to produce the list of these licences
- out of date entries on the licence database; and
- confusing changes in the system of numbering licences, with reliance upon supplementary manual records for interpretation.

In addition during the reconciliation phase, we found that for some of the companies, the accuracy of the data regarding their locations was a big problem.

We recommend that the Mining Cadastre should ensure that all records are computerised and maintained up to date; and should ensure that reports of all licensed operators, with appropriate details, can be readily produced for the EITI and other purposes.

7.1.7 REPORTING TEMPLATES

Due to the time available for the 2010 reconciliation, the ZEC decided to use the templates used in 2009 for the 2010 reconciliation. We reviewed these templates and confirmed their adequacy for this reconciliation, but recommend that the templates are reviewed before issue for the 2011 reconciliation, so that they include

- revisions to the company and audit declarations
- any revisions of scope
- improvement of definition of "Other Taxes" (see table 5.1.1 above)
- inclusion of an example of the information required for the supporting analysis to be attached to the template
- inclusion of a format on which social responsibility payments are to be declared

- improvement of the declaration of production
- summary instructions for completion and definitions of the flows

7.1.8 COMPANY ACCOUNTING

During the reconciliation work, we observed that the records kept by some companies, and communication of information within the companies, caused difficulties in producing the information necessary to reconcile payments made to ZRA with the records held by the Agency.

We recommend that companies should review their internal processes and procedures between accounting and treasury staff and ensure that bulk and material payments to ZRA are receipted, allocated by tax type and accounted for, including those payments that are made through clearing and forwarding agents. This will significantly help to reduce differences and un-reconciled amounts.

7.1.9 GOVERNMENT REPORTING SYSTEMS

During the reconciliation work, we observed that government systems are not always set up in such a way that it is easy for government to capture information required for EITI and to report on a timely basis.

We recommend that the government agencies involved, in particular the participating departments in ZRA and MMEWD, should review their systems for recording and reporting information on receipts from extractive companies, so that information can be reported reliably, completely and in a straightforward manner.

7.1.10 ZRA UNALLOCATED RECEIPTS

We observed that ZRA often records payments made to ZRA by extractive companies as “Unallocated Receipts”, and that there appears to be inadequate follow up within ZRA of such unallocated amounts, so that they are not identified to the correct company and the correct tax type(s). We were reviewing ZRA records relating to 2010 during our work in late 2012 and early 2013, at which time these receipts were still “unallocated”.

It is not unusual that there is difficulty in allocating receipts immediately but there needs to be a robust system in place to follow up all unallocated amounts so that they are allocated on a prompt and timely basis. This would not only eliminate many of the material differences which we saw during the 2010 reconciliation, but is good practice and would assist the ZRA in ensuring that taxes due are collected on a timely basis.

We recommend that ZRA examines its procedures and staff training in this area.

7.1.11 SOCIAL PAYMENTS

EITI Requirement 9 encourages multi stakeholder groups to apply a high standard of transparency to social payments and transfers, beginning with a clear understanding of the types of payments and transfers, the parties involved in the transactions, and the materiality of these payments and

transfers relative to other benefit streams, and has further detailed comment on this area, including recognition that these payments may be reported even though it is not possible to reconcile them (requirement 9 paragraph g).

Companies were requested to report social payments as part of the 2010 reconciliation but most companies either did not make social payments or did not report making any during the reconciliation period.

We recommend that the ZEC should gather information on social payments which companies are making, both outside the reconciliation process through dialogue with companies and other stakeholders (to gain a good understanding) and through the reconciliation process; and the ZEC should then examine whether these payments are material.

7.1.12 TRAINING

Training was not carried out prior to the 2010 reconciliation, which led to misunderstandings and differences which might have been avoided.

We recommend that in addition to any training activities which the ZEC may put in place during the next year, there should be specific training for staff from entities involved in the 2011 reconciliation, and for other interested stakeholders.

7.1.13 CUSTOMS AND CLEARING AGENTS

Many of the extractive companies use Customs and Clearing Agents to handle the paperwork associated with importing and exporting goods and materials across the Zambian border. We engaged successfully with companies over the supporting information which they needed to obtain from their Agents for the 2010 reconciliation, and express the view that this process will work well for future reconciliations, without the need to include the Agents directly in the reconciliation.

There were, however, difficulties experienced because in a number of instances Agents make “bulk payments” to ZRA, and insufficient detail and analysis was provided initially. We recommend that the training for entities in the 2011 reconciliation includes coverage of this area for participating companies. There should be consultation with companies over the benefit of inviting the most regularly used Agents to the EITI training, both as specific reconciliation training and also as part of general raising of awareness of EITI.

7.1.14 ENVIRONMENTAL PROTECTION FUND

There were concerns raised by the extractive industry participating companies as to the accuracy of the reporting and accountability of the funds that the mining industry is paying into the Environment Protection Fund.

We recommend that the 2011 ZEITI reconciliation should include a review of the audited accounts of the Fund and discussion with representatives from the Fund Board over the activities of the Fund, so that there is greater transparency within EITI in this area.

8 APPENDICES

8.1 PERSONS MET DURING THE RECONCILIATION

8.2 TERMS OF REFERENCE

8.3 REPORTING TEMPLATE

8.4 RECONCILIATION BY EXTRACTIVE COMPANY

8.5 LIST OF LICENSED COMPANIES INVOLVED IN THE EXTRACTIVE SECTOR, EXPLORATION AND PRODUCTION

8.6 AUDIT CERTIFICATIONS OBTAINED

8.7 PAYMENTS TO LOCAL COUNCILS BY COMPANY