ZCI Q&A

1. **WHAT WERE THE TERMS OF THE CALL OPTION DEED?**

The basic terms of the Call Option Deed were set out in the 11 October 2004 Circular to Shareholders recommending the introduction of Vedanta Resources as a strategic partner for KCM:

"Vedanta will have a call option over ZCI's shares in KCM, exercisable on either a positive development decision on the Konkola Ore Body Extension Project or the achievement by Konkola mine, a division of KCM, of 3 million tpa of ore production for four consecutive quarters. The exercise price will be the prevailing fair market value of ZCI's KCM shares as agreed to between ZCI and Vedanta or, failing agreement, as determined by an independent international investment bank."

The terms were also set out in the public announcement of 2 September 2005, announcing that Vedanta had given notice of its intention to exercise the Call Option Deed (the "Exercise Notice"), and in the press release of 17 July 2007. The parties could not agree a valuation between themselves, so an independent investment bank, Rothschild, was appointed to carry out the valuation.

2. **DID VEDANTA EXERCISE ITS OPTION WITHIN THE CORRECT TIMEFRAME OR UPON THE OCCURRENCE OF THE CORRECT TRIGGER EVENT UNDER THE CALL OPTION DEED?**

Yes. The Call Option Deed defines the "Vedanta Option Exercise Period" (i.e. the period during which Vedanta was entitled to exercise its option in respect of ZCI's KCM shares) as the period commencing on "(a) the date of approval by GRZ of an application by KCM (or, if later, <u>the date on which the board of directors of KCM unconditionally resolves) to proceed with the Konkola Ore Body Extension Project</u> …and…terminating on the earlier to occur of: (c) the date falling twenty-four (24) months thereafter…" (emphasis added). The KCM Board adopted such a resolution on 21 July 2005 and the Option Exercise period therefore began to run on that date. Vedanta exercised its option by way of a Notice on 12 August 2005, i.e. within the two-year period commencing on 21 July.

3. **IS ZCI BOUND BY THE TERMS OF THE CALL OPTION DEED?**

Yes. ZCI is bound by the terms of the Call Option Deed. If Vedanta chooses to complete the purchase of ZCI's shares, ZCI must accept the Option Exercise Price. The Option Exercise Price is set by the independent investment bank (i.e. Rothschild).

4. **WHY HAS THE VALUATION ONLY JUST BEEN DETERMINED WHEN VEDANTA GAVE THE EXERCISE NOTICE IN AUGUST 2005?**

As announced on 7 November 2005, ZCI and Vedanta originally attempted to agree a list of documentation which would have enabled Rothschild to conduct a "desktop" valuation without the need for a full technical review of the assets. ZCI and Vedanta were unable to agree the list of documents, since ZCI felt that Vedanta wanted to include documentation which gave a very pessimistic view of the value of the assets. Thereafter, terms of reference were agreed instructing Rothschild, with its mining consultants IMCL, to conduct a full technical review of the assets.

During negotiations on Rothschild's terms of reference it became apparent that the parties disagreed about the relevant date for the valuation. ZCI believed that the valuation should be conducted on an up-to-date basis, as at the date of Rothschild's report, whereas Vedanta believed that the valuation should have been conducted as at the Exercise Notice date. The issue of the valuation date was particularly important as copper prices, and analysts' price forecasts, rose significantly over the period in question. The parties then entered a lengthy arbitration process, under the terms of the Call Option Deed, which was not concluded until July 2007. The conclusion of the arbitrator was announced on 25 June 2007. The arbitrator held that the valuation should be carried out as at the Exercise Notice date (i.e. 12 August 2005). There are no grounds for ZCI to appeal that decision.

5. **WHAT WERE THE IMPLICATIONS OF THE ARBITRATION?**

Rothschild had to value KCM as it perceived KCM's assets at the Exercise Notice date. Rothschild had to ignore any information available after August 2005.

6. **ROTHSCHILD WAS FORCED TO USE THE LONG-TERM AVERAGE COPPER PRICE FORECAST PREVALENT AT EXERCISE NOTICE DATE, NAMELY $1/LB.**

IMCL appear to have had some difficulty in compiling the necessary technical data for the DCF model, since little information was available from August 2005. ZCI's technical consultants made strong representations before the process began to ensure that IMCL considered the right data. The Board of ZCI is of the view that they did a thorough a job in the circumstances. IMCL and Rothschild spent 3 weeks at KCM in Zambia to verify what they were being given was complete and accurate; for most of that time they were accompanied by ZCI's technical and financial advisers.

The arbitration order required that IMCL were to ignore actual operating and financial data post-August 2005. Accordingly they ignored the poor operating performance over the last two years. Profits over the intervening period have been driven by high copper prices without which KCM would have struggled to break even since it has been operating with such high production costs ($1.73/lb in 2007).

7. **DOES THE BOARD OF ZCI HAPPY ACCEPT ROTHSCHILD'S VALUATION METHODOLOGY?**

Yes. The industry standard for valuing producing mining assets is using the discounted cash flow ("DCF") method. Rothschild has correctly employed the DCF method in determining the option price. The technical modelling assumptions underlying the DCF valuation were compiled by IMCL. Other valuation methodologies were considered, but given minimal weighting by Rothschild.

8. **SHOULD ZCI'S SHARE PRICE HAVE BEEN TAKEN INTO ACCOUNT BY ROTHSCHILD?**

ZCI's share price is the only available market valuation of ZCI and hence of ZCI's share in KCM, since it is ZCI's only non-financial asset. The market is illiquid, which is why Rothschild gave little weight to that methodology. All ZCI press releases subsequent to the Exercise Notice have cautioned ZCI shareholders concerning the trading of ZCI shares.

9. **SHOULD PREVIOUS VALUATIONS OF KCM HAVE BEEN TAKEN INTO ACCOUNT BY ROTHSCHILD?**

The Call Option Deed, as interpreted by the arbitrator, specifies that the valuation had to be conducted as at August 2005. The condition of the assets of KCM, the operating parameters and economic assumptions are constantly changing. Rothschild had to take a snapshot of the assets and assumptions at August 2005 and value KCM on that basis only. Rothschild considered the valuation implied by the consideration paid by Vedanta for its 51% stake in KCM. However, that valuation was given little weighting since the basic economic terms of the transaction were agreed in May 2003, long before the valuation date, and copper prices and analysts' forecasts had risen significantly over that period. Other valuations which pre-date Vedanta's acquisition of 51% of KCM are of no relevance.

10. **DID ROTHSCHILD CONSIDER ALL OF KCM'S RESERVES AND RESOURCES IN ARRIVING AT THE VALUATION?**

Reserves are considered by individual business unit in the IMCL report which forms the Appendix to Rothschild's report. Reserves are incorporated in the valuation as they are mined throughout IMCL's life of mine plan. IMCL assumed that 80% of the inferred resource at Konkola will eventually be mined. (To put this in context, in project financings banks typically ignore inferred resources as too uncertain and risky). Information Rothschild and IMCL were provided with included the reserves and resources statement available as at August 2005.

11. **IS THE FULL BENEFIT OF THE KDMP EXPANSION PROJECT INCORPORATED INTO THE VALUATION?**

Yes. The Call Option Deed requires that the valuation include the projected benefit of the "Konkola Ore Body Expansion Project" (commonly known as KDMP or Konkola Deep). The development of KDMP is included in Rothschild's DCF valuation. The KDMP feasibility study conducted by Vedanta was justified using a long term copper price of $0.86/lb, compared to a $1/lb price used by Rothschild in its DCF model (both in real terms). We believe a $1/lb copper price assumption accurately reflects the consensus of analysts' forecasts as at August 2005. The development of KDMP is expected to significantly reduce operating costs at Konkola from today's levels. The reductions to operating costs are reflected in Rothschild's assumptions for the DCF valuation.

12. **SHOULD ZCI'S SHARE OF PROFITS EARNED BY KCM SINCE AUGUST 2005 BE PAID OUT AS PART OF THE CONSIDERATION FOR ZCI'S SHARES IN KCM?**

No. Since the valuation is set at August 2005, the arbitration meant that all subsequent information had to be ignored. The DCF method looks forwards from August 2005 and all forecast profits from then are captured by the DCF calculation. That the actual profits since August 2005 are different from the forecast profits for that period is a consequence of the arbitration determining that the valuation date should be August 2005. Since the valuation is as at August 2005, once the Call Option is exercised, subsequent actual profits, which remained in KCM belong to the shareholders. The actual performance of KCM post August 2005 could not be taken into account in the valuation.

The arbitration made clear that ZCI remains the owner of the shares, and of all rights in the shares, including the right to dividends, until they are transferred to Vedanta upon the exercise of the Call Option. ZCI has in fact received dividends on its shares subsequent to the exercise of the Call Option, although these have not, in the view of ZCI's board reflected the levels of free cash flow as determined in accordance with the Shareholders Agreement. ZCI's representatives on the board of KCM have strenuously argued for the distribution of higher dividends. Our considered view of our legal position is that we have no right to force a further or higher distribution of KCM's reserves.

13. **SHOULD ROTHSCHILD HAVE ASSUMED THAT THE VEDANTA SHORTFALL FUNDING COMMITMENT WOULD BE TRIGGERED IN ANY YEARS OF NEGATIVE CASH FLOW, OR OTHERWISE THAT KCM WOULD HAVE USED DEBT TO FUND CAPITAL EXPENDITURES?**

Rothschild has assumed that the Vedanta Shortfall Funding Commitment would drop away as part of a takeover of KCM (see s.2.5 for an explanation). ZCI believes this is a reasonable approach since Vedanta could not be expected to provide the commitment to someone acquiring 100% of KCM, which is the basis on which the Option Exercise Price must be calculated as per the Call Option Deed. Rothschild has valued KCM on the basis of its unlevered cash flows, which is standard industry practice. However Rothschild has credited KCM with the tax benefit it would receive if KCM were to use debt to fund KDMP, KCM's major capital expenditure item as at August 2005 (see s.3.7 and s.3.9).

14. **WILL VEDANTA HAVE TO PAY EXTRA TO ACQUIRE ZCI'S DEFERRED SHARES IN KCM?**

No. According to the Call Option Deed, all shares in KCM will be transferred to Vedanta, if it chooses to complete the purchase of the shares, for the consideration of $213.15m.

15. **WHAT WILL HAPPEN IF VEDANTA CHOOSES NOT TO EXERCISE THE OPTION?**

Vedanta has a "reasonable" time limit within which to decide whether or not to complete the purchase of ZCI's shares. If it chooses not to do so, ZCI will remain a 28.4% shareholder in KCM.

16. **CAN ZCI CHALLENGE THE VALUATION?**

Under the Call Option Deed, ZCI has no legal basis to challenge Rothschild's valuation. Vedanta now has the right to acquire ZCI's interest at the Option Exercise Price, and it must make this decision as soon as reasonably practicable after the Option Exercise Price was made known. At 31 January it had not yet done so.

17. **MIGHT THE ZAMBIAN GOVERNMENT INTERVENE?**

ZCI is not in a position to comment on press reports concerning intervention by the Zambian Government. It is a matter for Vedanta and the Government. ZCI remains bound by the terms of the Call Option Deed. The Zambia Competition Commission has, however, asserted jurisdiction over the transfer of the shares and stated that its permission is required before completion of the sale can occur. The Board of ZCI is examining this presently.