Transcript of Q&A Session at the 24th Annual General Meeting of Copperbelt Energy Corporation Plc

27 April 2022

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London Mwafulilwa: Thank you for that presentation from the external auditors. I now invite questions from the shareholders on the reports received from the CEO, CFO and the auditors. The Director of Programmes will assist with the question and answer process. Director of Programmes.

Gilbert Simakoloyi: Thank you very much, Chair. As we enter into the question and answer session, dear members, please note the following guidelines. In the interest of time and in order to accommodate wide participation, members, we advise that you limit your questions, or indeed comments, to a maximum of two per person. With respect to the questions, these should be clear and concise. Please note also that you are required to give your full name and your status as to whether you are a shareholder or not before you ask your question.

In terms of the modality, you will note that on your screen - notwithstanding the device that you are using - you will see an icon of a hand. All you need to do when you have a question or a comment to make, is to please put your cursor there and activate that particular icon and your hand will show on our screen, and we will be able to give you the opportunity to ask or indeed to make a comment in relation to this meeting. After your question or comment has been addressed, we will ask that you deactivate that icon so that your hand then drops from your screen to signify that you are no longer asking or commenting. We hope that is clear. Just for good measure, for purposes of good order for the meeting, we request that you address all your questions and comments to the Chairman.

We will also take note of the questions that you have dropped in the chat. Those will be given consideration and responded to as well. We will take a set of three people at each given time, who then will have the opportunity to ask a maximum of two questions. Once that is done, then we will refer to the Chairman to answer that set of questions. If that is clear we will now proceed into that particular process.

I see the first hand of Professor Prem Jain. I also see the second hand of Mwila Chansa. We have the third hand of Mukuka Mapemba. We have the first set of three that are going to ask questions or to make comments related to the deliberations of this meeting.

Let's go first with Professor Prem Jain. Kindly unmute your mic and you can ask your question.

Professor Prem Jain: Thank you very much. Good morning everyone. I would like to start by appreciating and congratulating the senior Management for the brilliant performance of CEC once again and steering the Company through difficult times. I have two questions, which I think are quite critical for the Company. First, is the new BSA. I do not know how much confidentiality is needed so far because it has not been signed yet, but is there any indication whether it is to the happiness, to the satisfaction of CEC? And the second question is about the KCM debt: how likely it looks that the Company will be able to recover the CEC debt. Thank you very much.

Mwila Chansa: Good morning everyone. I wanted to find out how long the new BSA will run. The previous one ran for about 20 years. Is Management in a position to tell us how long this new BSA will run, notwithstanding that the regulators have not yet concluded the issue? And then I also have a question pertaining to the supply of power to Konkola Copper Mines. I know at the height of the misunderstandings between ZESCO and CEC, ZESCO began supplying power to KCM directly. Now with the new BSA in place, how will we proceed going forward? Will ZESCO continue supplying and paying CEC for using the infrastructure or will CEC negotiate a new agreement with KCM? I thank you.

Mukuka Mapemba: Good morning and thank you, once again, to Management and the Board for the efforts made towards continuing to steer the Company towards greater heights. I would like to ask a question regarding what the CEO highlighted on modernising the power network and adopting new technology to optimise performance. Are you able to just shed more light on what that technology is and how exactly CEC is aiming to modernise its power network? Secondly, I'd also like to find out how CEC expects the impact of KCM's debt to be on dividend payments and its 10-year Capex plan, assuming that it isn't able to recover the debt in the short to medium term. Thank you.

Gilbert Simakoloyi: Thank you. Over to you, Chair. Those are the three people that have asked.

London Mwafulilwa: Thank you. Professor Prem Jain. On behalf of the Board, Management and the entire CEC family, we thank you for having appreciated and congratulated the team for the performance in the previous year. I will proceed to talk of the new BSA as asked by Professor Jain and Mwila Chansa. Unfortunately, this is a work in progress and until the regulators do revert to us, we are unable to provide any further details, but rest assured that the two managements of ZESCO and CEC, including their Boards, did work together to a mutual understanding and, therefore, we request that the shareholders hold back for now as these terms are subject to ratification by the regulators. Thereafter, we'll proceed to advise the shareholders of the contents of the agreement.

KCM debt, how likely to recover? I will ask the Management team to come in on that. With regards to KCM power supply under the new BSA, I've already addressed the issue of the new BSA but for now, ZESCO continues to supply power to KCM.

The impact of the KCM debt on dividends: obviously you saw that the previous year's dividends were hampered by the non-collection of the KCM debt, but Management will respond to that, including the modernisation of the technology in the infrastructure. CEO.

Thank you, Chair. Commenting on the KCM debt: this is a very important matter to CEC. The Company is owed money and the right thing is that KCM gets to pay this money fully to CEC, so we are proceeding on that basis. As I said, there are two actions at the moment - we have taken the matter to arbitration and that arbitration process is underway. When there's an opportunity to do any negotiations outside that arbitration, it is obviously the usual business practice that you remain open to finding a settlement if possible outside those processes.

So as a business, we remain very open to having any conversations that can bring this matter to a close. So, if KCM requires that we have a conversation on that, we are very open, and we will seek avenues to try and find that solution. Let me just ask my CFO if he wants to add anything on the KCM debt before we move on.

Mutale Mukuka: Thank you, Chair. Thank you, MD. I guess to answer that question you need to look at our cash flows as well as how much we are able to return to the shareholders as dividends during the period that the KCM default started. Now, in 2020, what you saw is that KCM started defaulting going into 2021. It started actually in 2019, 2020 and 2021. Now, in those years what you also see in the presentation that we shared earlier was that from a dividend perspective, we tried to see how we can protect first of all the cash from a CEC perspective, and secondly how we can continue to deploy cash in prioritised areas of our Capex to allow us to continue to provide service to our customers.

The conclusion is that we believe that the cash, if it comes through, will definitely boost our ability to make more investments. Will it impact our ability to distribute dividends to our shareholders? Minimally, yes, but we believe also that in the years when we were not paid we had the ability to return the funds to our shareholders through dividends.

So, in summary, we think that if the money came through, our ability to invest more will be there. That's what we will be looking for and our ability to return more money to our shareholders will be ample. Thank you, Chair.

Owen Silavwe: A comment on the assets for power network modernisation. There are obviously various facets to this programme. In a nutshell, what I would say is that if you look at utilities like CEC, they generally tend to have been around for so many years. CEC itself originally came into being in the early 1950s, so we'd expect a lot of equipment over the years has been ageing. However, as a Company, we operate very prudently, so we basically keep abreast with changes in technology. The key objective of that programme first of all is to modernise, so we need to bring in new equipment. It's going to be more efficient. It's going to be easier to control, and what you will then see is that because of things like renewables - renewables tend to be very variable over a day, and because of that what you basically need is to have components in your network that enable you to control the network better.

So, as we modernise the network, we also adopt control equipment that allows us the ability to control the network better. But as part of that programme, we also need to make sure that from a human capital perspective, we capacitate our human capital to ensure that they are able to run the network of the future. So, as I said, it's a multi-faceted programme looking at various aspects of modernisation so there's efficiency in it. There's the need to bring in new equipment and retire ageing equipment, there is the need to enable more flexible control of the network, there's a need to reduce the number of faults that occur on the network, but there's also the need to move to a modern network of the future in terms of the way it operates. Which means you can take various sources and be able to control power coming from these sources. Those are the main objectives that we try to achieve. Thank you, Chair.

London Mwafulilwa: Thank you. We may proceed to the next set of questions.

Alex Kafweta: My name is Alex. I'm a shareholder. I wanted to find out on the energy transition agenda: the CEO has alluded to the fact that the Company is concentrating on increasing their generation through solar, a project which is commendable, just near CBU, there. But what's the plan on further expansion of hydro? There's a project in North-Western (Province), which was embarked on. I haven't heard it being mentioned as to whether it's halted or there are plans on expanding it, and if so, when is it going to be commissioned? I believe that to be a great source of power for the Company and, hence, grow our power base.

Gilbert Simakoloyi: Thank you very much. We move on to Ashery. I see your hand is up, and then we'll move to Muyunda Munyinda. Ashery, kindly unmute your mic.

Ashery Chisaka: Good afternoon Chair. I've got a question. What is CEC's current position regarding the Luapula Hydro Project, which was reported sometime back that it was in the feasibility study phase. I thank you.

Muyunda Munyinda: Thank you very much. My name is Muyunda Munyinda and I'm a shareholder. I'm just picking on top of Alex's question. Aside from the modernisation initiatives that the CEO mentioned, I only see two Capex projects. One is a scaling up of the solar project to 34MW, and then the other one is the one he said was going to launch at some point in the year, I guess. So my question is with so much free cash flow that is sitting around are the two projects sufficient for the expansion needs that we are looking to grow revenue, or perhaps it's an opportunity to just give back a bit more to the shareholders? Thank you.

Gilbert Simakoloyi: Thank you very much, Muyunda Munyinda. Over to you, Chair.

London Mwafulilwa: Yes. As we respond to these questions, I think in the chat, there was a question of FQM scaling up on solar and what impact it will have on CEC. I will let the CEO answer those questions as they are all on the same subject matter.

Owen Silavwe: Thank you, Chair. In terms of the energy transition agenda, what you basically see is the energy transition agenda is obviously driven by the need to try and preserve humanity and indeed the globe, so governments and businesses alike have come together to try and implement objectives that have been set in this regard. We are familiar with the Zambian government having set up the Ministry of Green Economy.

From a Company perspective, or indeed from a business perspective, this is part of the sustainable way of creating value going into the future. As CEC, we obviously are very aligned to the need for us to adopt sustainability as we grow the business, and so there are various ways that companies are adopting the energy transition agenda. What you see around the world is a number of polluting generation technologies are obviously being phased out and green technologies are being adopted. As a business, we are also adopting green technologies through the Company's modernisation programme. We are phasing out a lot of equipment that, for example, generates a lot of losses, and equipment that could in any way harm the earth. So that programme is very important, and as I said, solar technology is just one of the ways we are doing that.

We are also looking at other technologies, for example, wind. I haven't talked about some of the pipeline projects that the Company is looking at because some of them are obviously still far off in terms of the process that we follow to try and establish viability of some of those projects, and there's no value in us talking about the full pipeline that the Company is looking at. So technologies like wind, hydro…those are things that we obviously try and look at as a business. But as we do that, we obviously need to make sure that we're only looking at projects that are viable, but also align well with the core business of the Company because it is important that in as far as capital allocation is concerned, as we do that we are careful that we are allocating capital to things that would deliver the best value to our investors. That is something that as a Company we will obviously continue to be very prudent about, because otherwise we may end up destroying instead of creating value.

Regarding the Luapula hydro potential: yes, that is something that as a Company we've looked at in the past. However, as you may be aware, that project or the Luapula River Basin itself, the Government in the past made a decision that because this is a boundary or a border between Zambia and the DRC, there was need for them to set up a river authority and come up with the rules in terms of how those projects are going to be developed.

We believe that is something that the new Government will be taking up, but as I said we've got a lot of engagements with both the Government and other authorities. That is something that we will be taking up. We still maintain our interests in the Luapula River Basin, and if some of those opportunities begin to materialise, that's something that we will bring to the investors and will provide more information on. Suffice, for this purpose, to say we still maintain some level of interest in the Luapula River Basin, but we need to make sure that if we're doing anything in that area, that the rules are very, very clear and we are being very selective in terms of projects that will deliver value for our investors.

I think there was a question that touched on Kabompo, though Kabompo itself was not specifically mentioned. I want to, again, agree that this is a project that we still maintain interest in. However, the structure under which we want to do Kabompo has changed over the years. Part of the reason is some of the costs associated with Kabompo, but also just the general structure of our electricity market in Zambia as well some of the issues around off-take and creditworthiness, that have been impacting the electricity market. However, we expect that some of those issues will obviously be resolved as Zambia just generally addresses some of the macro issues that the country has been facing, and as that gets addressed then we should be able to come back to our investors and advise whether the Company will be going ahead in Kabompo or a different decision will have to be made.

On the solar project that FQM may be undertaking: we're obviously not involved as CEC. However, a general comment on that is you will see that generally all corporates at the moment are trying to move to this net zero target, and we can only imagine that FQM and indeed other businesses or corporates like them will be looking at what projects they need to do to try and improve their carbon footprint and in the end move to net zero. So our expectation is that those would be some of the things that are driving projects by companies like FQM. But as I said, from a CEC perspective, we are not involved in that project. Thank you.

London Mwafulilwa: Thank you. We may move to the next set of questions.

Gilbert Simakoloyi: Chair, before we go to the members who are actually asking, we have a few questions that have been dropped into the chat. You may wish to respond to them.

This one is coming from Kenny Chilawo. He is saying: Has CEC revised its dividend policy of paying twice as it is silent on its website? Why is CEC not transparent in its dividend declaration like other listed companies who announce at AGMs and also immediately indicate when it will be paid, and why does CEC leave payments towards year end?

The next question Chair is from Mr. Millington Mambwe. He is saying, what are CEC and partners like ZESCO and the mines doing to stem copper conductor and metal infrastructure thefts, like lobbying to ban open scrap metal dealing which is now rampant despite the threats subsisting on the CEC side?

Those are the questions, Chair.

London Mwafulilwa: Thank you. The CEC payments of dividends, why are they not made twice in a year and why are we paying at the year end? The person says we are not transparent on this. I think we are very, very transparent when it comes to the issue of dividends. We are a publicly listed company and all the information that any investor or any shareholder is looking for is available at any time through the Investor Relations Office. We encourage the members in attendance that, besides the AGM, you have an opportunity to actually engage the Company through this office. I will let the Management answer on the payment of dividends and the timing of the payment of dividends.

Mutale Mukuka: Thank you, Chair. We have a dividend policy which is on our website. Shareholders can access it there. The dividend policy provides that we'll pay dividends to shareholders on the basis of the Company having sufficient liquidity, the Company being profitable, and the dividends will be paid at 50% of the profitability or the earnings of that year.

I can announce that the past few years the profitability of the business has been significantly low. Despite in some cases the Company having posted a loss after tax, the Board, having considered the other factors including the availability of reserves, as well as availability of cash, has recommended an increase in the payment of dividends, Chair. Whereas before, the dividend would typically be paid in the first quarter of the year, in 2020, when the Company was declared common carrier, the Board's position was that we protect the business, we assess the risks properly to understand the impact on the business. When the Board was comfortable with the risks that the business had, a dividend was recommended and paid in the third and fourth quarter. From that time, the cycle has sort of moved to a payment of dividends to the last quarter of the year. Thank you, Chair.

London Mwafulilwa: There's still a question in terms of instalment payment.

Mutale Mukuka: Chair, that's a very interesting question. Companies pay dividends at different times. Some companies pay quarterly, some companies pay on a semi-annual basis. CEC has for some time now consistently paid once a year in line with the policy. Should the policy be amended to align with a different payment timeline, whether it's a semi-annual or quarterly basis, then that will be done. The only issue is that when you increase the number of times, whether it's quarterly or monthly, then the administrative work becomes a lot more. But also in terms of assessing and allowing Management to focus on the business, to ascertain the profitability then you're sort of planning on a shorter period. We, therefore, think that at this stage based on where the business is, the business environment in Zambia, it is prudent to sort of adopt an annual payment cycle with respect to dividends. Thank you.

London Mwafulilwa: Just before we take the next set of questions, Ms. Mapemba clearly indicates that she believes the KCM impact on the business has not been fully answered. Briefly do go over that statement, please.

Mutale Mukuka: Thank you, Chair. Maybe to help answer that question I can put in some numbers, because that will then help to contextualise the question. CEC is owed USD170 million by KCM. In turn, USD110 million is money owed by CEC to ZESCO. The net impact, which is CEC's cash flow, is sort of limited to about USD60 million. So, to the extent that the USD60 million, which is the net amount, ends up in CEC, CEC's ability to apply that USD60 million - of course it will be after tax because there will be the appropriate taxes that will be triggered as a result of the write-back - CEC's ability to apply that money towards whether it's Capex or dividend payments and other obligations is sort of enhanced.

In summary, whereas the non-payment remains - to the extent that the position remains that CEC is owed and CEC owes ZESCO - we do not anticipate to see an impact negatively on CEC's ability to deploy capital to its capital investments. Chair, I hope that answers the question. Thank you.

London Mwafulilwa: Thank you. I think we can take the last set of questions.

Gilbert Simakoloyi: Thank you, Chair. I see the hands that had gone up earlier. Is that a follow up? There's Ashery and Sekeli Maboshe. Are those old hands or are they new hands? Ashery, your mic is muted. Are you ready?

Ashery Chisaka: Good afternoon, once again, Chair. Are there any plans by Copperbelt Energy Corporation to enter into public-private partnership business ventures with the current Government?

Gilbert Simakoloyi: Okay, thank you. Sekeli Maboshe.

Sekeli Maboshe: Thank you, very much. Good afternoon. I would like to ask one or two questions here. In an event there is no BSA in place, or rather it doesn't pass, is CEC going to survive let's say given for the next 20 years without the BSA, or it entirely depends on this wheeling of power from ZESCO? Second, I'd like to ask the CFO why the non-current assets had reduced from USD503 million to USD496 million in 2021? I submit, thank you.

London Mwafulilwa: Thank you. Do we have any more questions Mr. Simakoloyi?

Gilbert Simakoloyi: Chair we don't have any questions except the ones that have come via the chat. There is one slightly similar to the one that has just gone ahead of it by Bupe Mwansa and the question reads, "What are the key components of the initial Bulk Supply Agreement that will give assurance to the shareholders, Company and other beneficiaries, and equally bring about stability to the power sector?"

This is the second question Chair. The Riverside solar power plant is a sustainable way of creating and adding value to the Company's investment. Are there any plans of further expansion prior to the current expansion going on?

The next one is a commendation from Mr. Thomas Mkandawire. He is saying, "I would like to thank Management and the Board for considering investing in renewable and sustainable energy. When do we expect that this will be fully actualised?" Those are the questions, Chair.

London Mwafulilwa: Thank you. There was also a question we didn't answer from Mr. Mambwe on stemming the theft of copper conductors. The Company has engaged all stakeholders in this area. Like you rightly pointed out, it involves CEC, it involves ZESCO and it involves the mining industry. The various ministries have been engaged. This is a work in progress, and if you follow the reports you will realise that some progress has been made because we are finally getting those that are involved in this theft of copper conductors arrested and getting convicted.

There was Mr. Sekeli who asked if there is no BSA, and I think there was another question with regard to giving us some information on the previous BSA versus the new BSA. I would like to inform the members that there's a proposed BSA, and both Management and Boards of ZESCO and CEC were happy at arriving at a certain position. That position has been referred to the regulators, and as for our colleagues there is also the requirement that it's referred to the Attorney General for consideration.

So, the only thing we can ask all the members is to please bear with us. This is a work in progress. The initialling by the two parties was basically to state that they had come to an agreement and subject to review by the Energy Regulation Board, and on our colleagues' side, also ratification from the Attorney General's office.

Once they come back, we will obviously engage again and if we are all in agreement, that is when the signatures will be appended to the agreement. Right now, it's the proposal that has been sent forward for ratification, so I'd like to ask the members that we hold off for now and in due course, when the relevant bodies have come back we will advise accordingly.

Have I missed out anything there? The reduction in the asset value, CFO.

Mutale Mukuka: Thank you, Chair. Chair, I will ask that Mr. Maboshe looks at note 20, which provides the details of the non-current assets. Now, just a quick explanation. The non-current assets are typically the sort of asset distributions that we have - transmission substations, land, motor vehicles and so on. Now, in a year where you end up with a higher depreciation charge than the rate at which you're replacing your assets, the expectation is that the non-current assets total number will be less than the opening. This is what actually happened in this year, so all this note is doing is picking the opening balance of the total assets. To that we add the assets which we've invested in, in that specific year, and then we subtract the rate of usage or the life of the assets, which is a depreciation charge.

Now, in any year when the depreciation charge is higher than the rate at which we are adding back assets, then the expectation is that the net balance will be less than the opening balance. This was the case for 2021. Thank you, Chair.

London Mwafulilwa: Thank you. Then there was a question on public-private partnerships. Yes, CEC is fully engaged and we are happy that the Government is providing a forum. We today, if it had not been for this AGM, would have actually been present in Lusaka to attend the official launch of the Public Private Dialogue Forum. We have, however, sent a team in Lusaka to attend. Government did invite us to this launch because we expect to be a Company that is participating in this forum, which is quite important.

Finally, let me basically close the question and answer session by saying thank you for the questions that you've raised. We certainly have moved a long way. I noticed the major questions, other than the dividends, were on the reinvestment in the Company, which is a matter that we must certainly value because the value on your returns is dependent on the growth of the Company. And it's good to be able to steer the Company in a direction where we are now concentrating on growth.