IMPORTANT

You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES AND WITHIN THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" ("QIBs") AS DEFINED IN AND PURSUANT TO RULE 144A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT TO QIBs PURSUANT TO RULE 144A.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be a person who is outside the United States unless you are a QIB in the United States. By accepting the email and accessing this Prospectus, you shall be deemed to have represented to the Republic of Zambia, Barclays Bank PLC and Deutsche Bank AG, London Branch that you and any customers you represent, unless you are QIBs, are not in the United States; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the US, its territories and possessions (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia unless you are a QIB in the United States; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

Any materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

This Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Republic of Zambia, Barclays Bank PLC, Deutsche Bank AG, London Branch, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC or Deutsche Bank AG, London Branch.

THE REPUBLIC OF ZAMBIA

US$1,000,000,000

8.500 per cent. Notes due 2024

Issue Price: 99.174 per cent.

The issue price of the US$1,000,000,000 8.500 per cent. Notes due 2024 (the "**Notes**") of the Minister of Finance acting for and on behalf of the Republic of Zambia ("**Zambia**" or the "**Issuer**") is 99.174 per cent. of their principal amount. Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 14 April 2024.

The Notes will bear interest from 14 April 2014 at the rate of 8.500 per cent. per annum payable semi-annually in arrear on 14 April and 14 October in each year commencing on 14 October 2014. Payments on the Notes will be made in US dollars without deduction for or on account of taxes imposed or levied by the Republic of Zambia to the extent described under "*Terms and Conditions of the Notes–Taxation*".

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The Notes are expected to be rated B by Fitch Ratings Ltd ("**Fitch**") and B+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of Fitch and Standard & Poor's is established in the European Union and registered under Regulation (EC) no 1060/2009 (the "**CRA Regulation**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, or withdrawal at any time by the assigning rating agency.

AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS DESCRIBED IN "*RISK FACTORS*" BEGINNING ON PAGE 8.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("QIBs") (as defined in Rule 144A under the Securities Act ("Rule 144A")) in reliance on, and in compliance with, Rule 144A ("Rule 144A Notes"); and (b) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") ("Regulation S Notes"). Each purchaser of the Notes will be deemed to have made the representations described in "*Subscription and Sale*" and is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Neither the Prospectus nor the Notes are required to be registered or cleared under the regulations of the Zambian Securities and Exchange Commission (the "**Zambian SEC**").

The Notes will initially be represented by two global certificates in registered form (the "**Global Certificates**"), one of which will be issued in respect of the Notes offered and sold in reliance on Rule 144A (the "**Restricted Global Certificate**") and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**") and the other of which will be issued in respect of the Notes offered and sold in reliance on Regulation S (the "**Unrestricted Global Certificate**") and will be registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). It is expected that delivery of the Global Certificates will be made on 14 April 2014 or such later date as may be agreed (the "**Closing Date**") by the Issuer and the Joint Lead Managers (as defined under "*Subscription and Sale*").

BARCLAYS	***JOINT LEAD MANAGER AND JOINT BOOKRUNNERS***	**DEUTSCHE BANK**

8 April 2014

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the best of the knowledge and belief of the Issuer, having taken all reasonable care and made all reasonable enquiries to ensure that such is the case, this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers or any of their respective affiliates.

None of the Joint Lead Managers or any of their respective affiliates have independently verified or authorised the whole or any part of the information contained herein. Accordingly no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or their respective affiliates as to the accuracy or the completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. No Joint Lead Manager or its respective affiliates accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or in any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

IMPORTANT NOTICES

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer of, or an invitation to subscribe for or purchase, any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus, or that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof, or that any other information supplied in connection with the offering, sale or delivery of Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers and their respective affiliates expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes nor to advise any investor in the Notes of any information coming to their attention.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

Generally, investment in emerging markets such as Zambia is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult their own legal and financial advisers before making an investment. Such risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, a narrow export base, budget deficits, lack of adequate infrastructure necessary to accelerate economic growth and changes in the political and economic environment. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Investors should also note that emerging markets such as Zambia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**US$**", "**US dollars**" or "**dollars**" are to United States dollars, references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "**K**", "**Kwacha**" or "**ZMW**" are to the rebased Zambian kwacha, references to **£** or to **Pound Sterling** are to Great British Pounds and references to "**RMB**" are to the official currency of the People's Republic of China. References to "**billions**" are to thousands of millions.

In connection with the issue of the Notes, Barclays Bank PLC (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission, any state securities commission in the United States or any other regulatory authority in the United States, nor have the foregoing authorities reviewed or passed upon or endorsed the merits of the offering of the Notes or the

accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes which does not involve a public offering. Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain acknowledgements, representations and agreements as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus is being furnished on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes. This Prospectus is being furnished only (1) to a limited number of investors in the United States only to persons reasonably believed to be QIBs and (2) to investors outside the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of their contents or use of any information herein or therein in the United States for any purpose, other than in considering an investment by the recipient in the Notes, is prohibited. Each potential investor in the Notes, by accepting delivery of this Prospectus agrees to the foregoing.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written and oral statements that the Issuer and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be forward-looking statements. Statements that are not historical facts, including, without limitation, statements about the Issuer's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and similar expressions generally identify forward-looking statements but are not the exclusive means of identifying such statements. Therefore, undue reliance should not be placed on them. The Issuer has based these forward-looking statements on its current view with respect to future events and financial results.

Forward-looking statements speak only as of the date on which they are made and the Issuer undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policy, including privatisations, and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic policies are implemented; (iii) the outlook for gross domestic product, inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of external debt repayment and debt service.

The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. The information contained in this Prospectus identifies important factors that could cause such differences, including, but not limited, to the following adverse external factors, such as:

- changes in international commodity prices, particularly copper and copper products, foreign exchange rates or prevailing interest rates, which could adversely affect Zambia's balance of payments and external reserves;
- recession, political unrest or low economic growth in Zambia's trading partners or, in the event that Zambia increases its reliance on external borrowings, changes in the terms on which international financial institutions provide financial assistance to Zambia or fund new or existing projects, which could decrease exports, adversely affect Zambia's economy and, indirectly, reduce tax and other public sector revenues, so adversely affecting Zambia's budget; or
- adverse events in other emerging market countries, which could dampen foreign investment or adversely affect the trading price of the Notes.

and the following adverse domestic factors, such as:

- any failure to continue to implement reforms in particular industries or economic sectors;
- changes in the economic or other policies, including monetary policy applicable in Zambia, which could affect inflation, growth rates and/or other aspects of the Zambian economy;
- a decline in foreign direct investment, increases in domestic inflation, high domestic interest rates, exchange rate volatility or an increase in the level of domestic and external debt, which could lead to lower economic growth, a decrease in Zambia's revenues or an increase in debt service requirements;
- socio-economic factors in Zambia such as poverty, unemployment, income inequality and health-related issues, which could affect political stability;
- any deterioration in investor perceptions; and
- the ability of Zambia to adequately address its infrastructure deficiencies, such as those in the transport and energy sectors, which may affect its ability to achieve the desired growth in the mining sector and negatively impact the pace of economic growth.

The sections of this Prospectus entitled "*Risk Factors*", "*The Republic of Zambia*" and "*The Economy*" contain a more complete discussion of the factors that could adversely affect the Issuer. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur. The Issuer does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law or applicable regulations. All subsequent written and oral forward-looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

EXCHANGE RATE HISTORY

The Zambian kwacha has been selected as the functional and presentation currency for the purpose of this Prospectus, as the majority of Zambia's operations are denominated, measured, or funded in Zambian kwacha.

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the central bank of Zambia (the "**Bank of Zambia**"), established pursuant to the Bank of Zambia Act No. 43 of 1996 (the "**Bank of Zambia Act**"), in each case for the purchase of the

Zambian kwacha, all expressed per US dollar. These translations should not be construed as representations that Zambian kwacha amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated as of any of the dates mentioned in this Prospectus or at all.

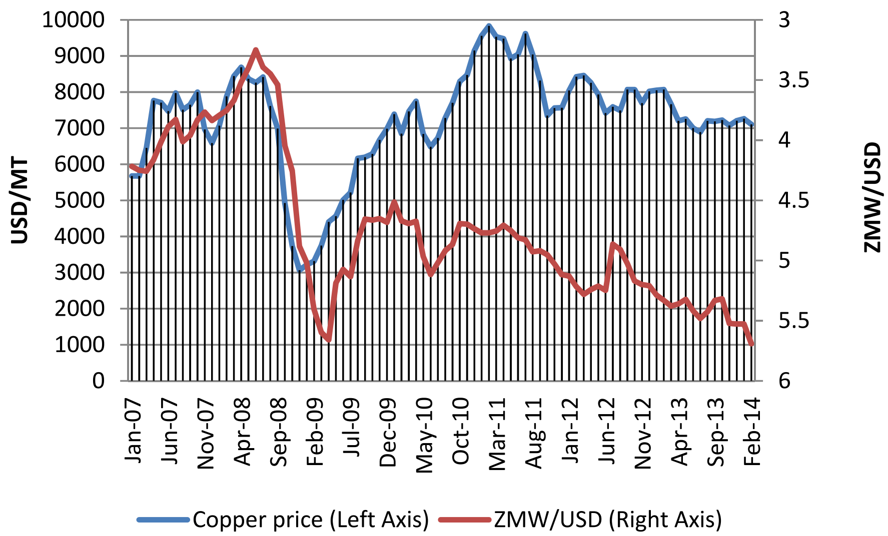
	Period End	Average(1)	High	Low
		(Zambian kwacha/US dollar)		
Month				
January 2014	5.58	5.53	5.58	5.49
February 2014	5.81	5.69	5.81	5.58

	Period End	Average(1)	High	Low
		(Zambian kwacha/US dollar)		
Year				
2008	4.83	3.82	5.19	3.18
2009	4.64	5.06	5.73	4.60
2010	4.80	4.83	5.22	4.41
2011	5.12	4.86	5.14	4.69
2012	5.14	5.15	5.34	4.70
2013	5.41	5.39	5.60	5.15

Source: Bank of Zambia

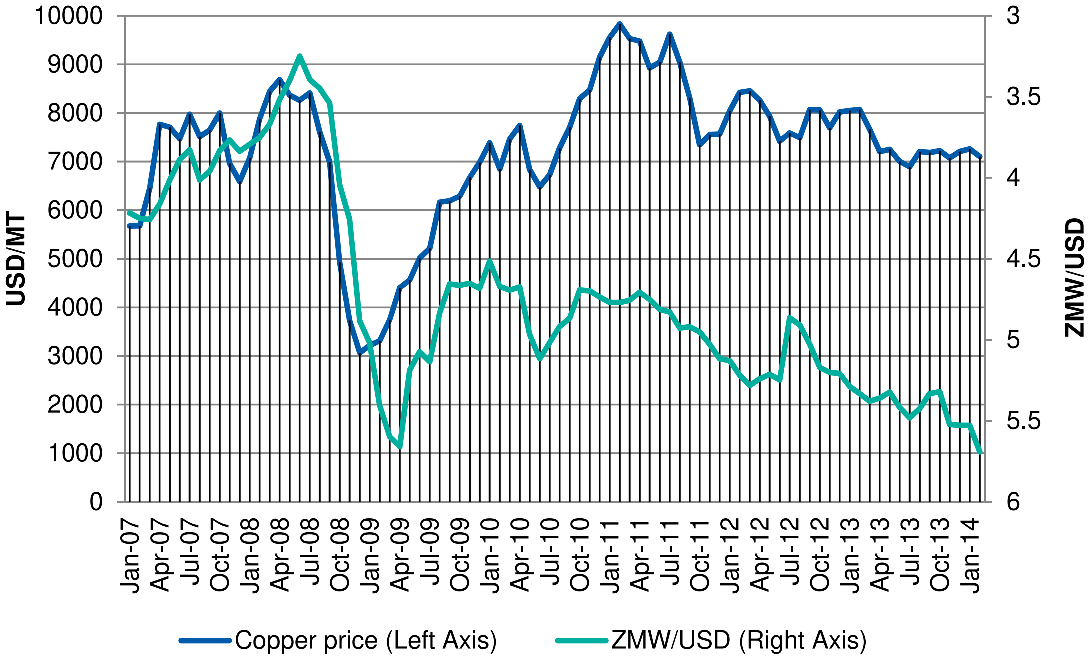
(1) The average rate is calculated based on the rate on each business day of the month for monthly averages, and on the last business day of each month for annual averages.

The following graph sets out the real effective exchange rate ("**REER**") against the copper price for the periods indicated. Zambia's REER is calculated using the US dollar, Pound Sterling, Euro, Chinese Renminbi, Swiss Franc and South African Rand.



Source: Bank of Zambia

The following graph sets out the exchange rate against the copper price for the periods indicated.



Source: Bank of Zambia

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be the sum of the figures which precede them. Statistical information reported herein has been derived from official publications of, and information supplied by, a number of agencies and ministries of the Issuer including the Bank of Zambia, the Ministry of Finance and the Central Statistics Office. Some statistical information has also been derived from information publicly made available by third parties such as the International Monetary Fund (the "**IMF**"), the International Bank for Reconstruction and Development (the "**World Bank**") and other third parties. Where such third party information has been so sourced the source is stated where it appears in this Prospectus. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, statistics and data published by a ministry or an agency of the Issuer may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions or methodology. Certain historical statistical information contained herein is based on estimates that the Issuer and/or its agencies believe to be based on reasonable assumptions. The Issuer's official financial and economic statistics for previous periods are subject to review as part of a regular confirmation process. Accordingly, financial and economic information for previous periods may be subsequently adjusted or revised and may differ from previously published financial and economic information. In particular, certain estimates of financial and statistical information as at and for the year ended 31 December 2013 in this Prospectus may be preliminary estimates that are expected to be finally determined in the second quarter of 2014. While the government of the Republic of Zambia (the

"**Government**") does not expect revisions to be material, no assurance can be given that material changes will not be made.

Exchange rates used for import expenditures referenced in this Prospectus are based on the relevant monthly average interbank rate as published by the Bank of Zambia.

References to gross domestic product ("**GDP**") are to nominal GDP unless indicated otherwise.

The Government approved the Bank of Zambia's recommendation to rebase the Kwacha from 1 January 2013 with each unit of the currency under the new system equivalent to 1,000 units under the old system. References to "**K**", "**Kwacha**" or "**ZMW**" are therefore to the rebased Zambian kwacha.

Zambia participates in the IMF's General Data Dissemination System ("**GDDS**"), which is designed to guide all member countries in the provision of their economic and financial data to the public. Data covered includes the real, fiscal, financial and the external sectors as well as socio-demographic data. By participating in the GDDS Zambia has undertaken to:

- use the GDDS as a framework for statistical development;
- designate a country coordinator; and
- provide metadata to the IMF describing the current practices and plans for short- and long-term improvements in these practices.

A summary of the methodology under which Zambia prepares its metadata is found on the internet under the IMF's Dissemination Standards Bulletin Board. Zambia's metadata may be found on the IMF's website at www.imf.org.

Websites included in this Prospectus and information therein do not form part of this Prospectus.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in jurisdictions outside Zambia (including judgments predicated upon civil liability provisions of the securities laws of the United States or any state or territory within the United States) against the Issuer without compliance with the enforcement procedure for foreign judgments in Zambia. The Issuer will irrevocably appoint the High Commissioner for the Republic of Zambia in the United Kingdom of Great Britain and Northern Ireland as its authorised agent on whom process may be served in any action arising out of or based on the Notes in an English court. The Issuer has agreed that any claims or disputes arising in respect of the Notes shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration. The Republic of Zambia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

A judgment by a Zambian court will ordinarily be awarded in Zambian kwacha, but may be awarded in a foreign currency. Similarly, when enforcing a foreign judgment awarded in a currency other than Zambian kwacha, a Zambian court may convert such award into Zambian kwacha. In that event, there may be a discrepancy between the rate of exchange used by the Zambian court to convert such award into Zambian kwacha, and the rate of exchange which may be obtained in the market to convert such award from Zambian kwacha back into another currency. A Noteholder who is awarded a judgement may therefore incur a loss as a result of such exchange rate differences. A currency indemnity has been included in the terms and conditions (see Condition 16 (*Currency Indemnity*)), however, the cost of enforcement of such condition may nevertheless result in a loss by such Noteholder. Any payment to be made from Zambia pursuant to any judgment will not require a Zambian Exchange Control Approval. Some payments to be made by Zambia pursuant to final judgments made by Zambian courts may be subject to a compensation and awards fund. See "*Public Finance–Compensation and Awards Fund*".

To the extent that the Issuer may in any jurisdiction claim or acquire for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer irrevocably agrees for the benefit of the holders of Notes not to claim, and irrevocably waives, such immunity, to the fullest extent permitted by the laws of such jurisdiction. The waiver of immunity will have the fullest scope permitted under the Foreign Sovereign Immunities Act of 1976 of the United States and the State Immunity Act 1978 of the United Kingdom and is intended to be irrevocable for the purposes of such acts, but shall otherwise constitute a limited and specific waiver for the purpose of the Deed of Covenant, the Agency Agreement (as defined herein) and the Notes. The Issuer does not thereby waive such immunity from execution or attachment, or like process, in respect of (a) property, including any bank account, used by a diplomatic or consular mission of the Issuer or its special missions or delegations to international organisations, (b) property of a military character and under the control of a military authority or defence agency of the Issuer or (c) property located in the territory of Republic of Zambia of which the ownership vests in the Government of the Republic of Zambia and furthermore Zambia has not consented to service or waived sovereign immunity with respect to actions brought against it under the US federal securities laws or any state securities laws. In the absence of a waiver of immunity by Zambia with respect to such actions, it may not be possible to obtain a judgment in such an action brought in a US court against Zambia unless such court were to determine that Zambia is not entitled under the Foreign Sovereign Immunities Act of 1976 of the United States to sovereign immunity with respect to such action.

Under Zambia's Foreign Judgments (Reciprocal Enforcement) Act (the "**Foreign Judgments Act**"), enforcement of foreign court judgments in Zambia is subject to the following conditions:

- the Zambia courts are not exclusively competent to hear the dispute, and the foreign courts are shown to have been competent to hear the dispute in accordance with their own respective laws;

- the foreign procedures were fully respected and the parties to the dispute were duly notified and properly represented in the proceedings;
- the dispute was properly resolved according to proper facts which were raised in the dispute;
- the foreign judgment is final, non-appealable and conclusive in accordance with relevant law;
- the foreign judgment has been registered under the laws of Zambia;
- the foreign judgment does not conflict with a prior Zambian judgment on the same subject matter and is not contrary to public policy and public policy law principles in Zambia; and
- the Zambian high court has a wide discretion in determining whether or not to enforce a foreign judgment on the grounds of matters of public policy.

However, notwithstanding the conditions to enforcement set out in the Foreign Judgments Act, a decision of the High Court of Zambia in 2010 held that in order for judgments obtained in the United Kingdom to be registered under the Foreign Judgments Act, the provisions of the Foreign Judgements Act have to be extended by order of the President. Without such order, the enforcement of judgments of the courts of England and Wales directly by registration under the Foreign Judgments Act is not possible. As a result, absent a statutory order or other legislation addressing the enforcement of English court judgments in Zambia, it may be difficult for investors to obtain or realise judgments of English courts. Judgments may however be enforced in Zambia by bringing a common law action founded on the foreign judgment as the cause of action.

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OVERVIEW

The following is an overview of certain information contained elsewhere in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth in "Risk Factors" below prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Prospectus. See "The Republic of Zambia", "The Economy", "Foreign Trade and Balance of Payments", "Public Finance", "Public Debt" and "Monetary System", amongst others, for a more detailed description of the Issuer.

Overview of the Republic of Zambia

General

Zambia is a landlocked country in Southern Africa. Zambia occupies approximately 752,614 square kilometres and is bordered by the Democratic Republic of Congo and Tanzania to the north, Angola to the west, Botswana, Namibia and Zimbabwe to the south and Malawi and Mozambique to the east. The capital of Zambia is Lusaka, which is situated in the centre of the country. The 2012 Labour Force Survey Report published by the Central Statistics Office in September 2013 (the "**LFS 2012**") indicated a population of 14,375,601 with 60.2 per cent. in rural areas and 39.8 per cent. in urban areas. According to the World Bank, the population of Zambia had grown to 14.08 million by 2012, with 60 per cent. (8,445,059) living in rural areas and 40 per cent. (5,630,040) living in urban areas.

On 24 October 1964 Zambia gained political independence and adopted a multiparty system of government. In the presidential elections held on 20 September 2011, Michael Sata, from the Patriotic Front (the "**PF**") party, was elected with 43.3 per cent. of the vote. Michael Sata's victory ended two decades of rule from 1991 until September 2011 by the Movement for Multiparty Democracy (the "**MMD**") party.

The first constitution of Zambia dates back to the Federation of Rhodesia and Nyasaland (Constitution) Order in Council of 1953 (the "**Federation**"), which created the Federation of Rhodesia and Nyasaland and, among other things, defined the powers of the Federal government and those of territorial governments. Under the Constitution of 1991 as amended in 1996 (the "**Constitution**"), Parliament consists of the President and the National Assembly. The National Assembly is comprised of 160 members, of which there are 150 directly elected members (one from each of the parliamentary constituencies), up to eight presidentially appointed members, the Speaker of the National Assembly and the President of the Republic of Zambia. Directly elected Members of Parliament stand for elections every five years in their constituencies. In the elections for the National Assembly, the PF obtained 60 seats, the MMD obtained 55 seats and the United Party for National Development ("**UPND**") obtained 28 seats. The remaining seats were split between two other parties, independents and two seats were not determined. As a result of subsequent bi-elections, as at the end of October 2013, the PF has 76 seats, the MMD has 42 seats, the UPND has 30 seats, and each of the Forum for Democracy and Development ("**FDD**") and the Alliance for Democracy and Development ("**ADD**") have one seat.

Economy

In 2012, Zambia was Africa's largest and the world's seventh largest copper producer according to the US Geological Survey and a significant portion of Zambia's gross domestic product ("**GDP**") and the majority of its foreign exchange earnings are derived from the production and export of copper and copper by-products. See "*Risk Factors–The Zambian economy is largely dependent on copper production and global market prices for copper*". In addition to the mining sector, Zambia's economy consists of a large agricultural sector, which provides the majority of employment, an established tourism sector, a manufacturing sector and fast growing construction, transportation and communication sectors.

Following a period of relatively weak economic performance in the 1980s and 1990s, Zambia's macroeconomic position has improved significantly in the last decade, with GDP growth of an average of 5.2 per cent. between 2000 and 2009, increasing to an average of 7.2 per cent. between 2010 and 2012. In 2012, Zambia was amongst the 10 fastest growing economies of Sub-Saharan Africa. According to Central Statistical Office preliminary data, the overall GDP growth stood at 6.4 per cent. in 2013 and the Government has committed in the 2014 Budget Address delivered to the National Assembly on 11 October 2013 ("**2014 Budget Address**") to achieve real GDP of above 7 per cent. in 2014.

The Zambian economy has transformed greatly since 1991 due to fiscal and monetary policy reforms as well as structural reforms, in particular the privatisation of government-owned copper mines in the late 1990s and early 2000s and the liberalisation of the economy. As a result of investment in the industry and higher copper prices, copper output has increased steadily since 2004. In addition, Zambia has improved its fiscal discipline in recent years. The fiscal deficit (which averaged almost 14 per cent. of GDP in the 1980s and 6 per cent. in the 1990s) was reduced from 6 per cent. of GDP in 2003 to below 3 per cent. in 2004. Overall, fiscal discipline during this period enabled the Government to bring domestic debt and interest rates down significantly and to qualify for debt relief under the Heavily Indebted Poor Countries (the "**HIPC**") Initiative and the Multilateral Debt Relief Initiative (the "**MDRI**"), resulting in the cancellation of US$5,781.86 million of foreign debt in 2005 and 2006. Paris Club creditors cancelled US$2,271.9 million of Zambia's debt, while non-Paris Club creditors cancelled US$75.36 million and multilateral creditors cancelled US$3,434.6 million. According to preliminary data, in 2013 the fiscal deficit was 6.8 per cent. of GDP, compared to the Government 2013 budget target of 4.3 per cent., due to, among other factors, the clearance of arrears relating to the fuel subsidy (removed in May 2013), higher than projected expenditures on the strategic food reserve, Farmer Input Support Programme ("**FISP**"), as well as higher pay for civil servants. In its 2013 Article IV Consultation Paper, the IMF projected a fiscal deficit of 8.6 per cent. of GDP in 2013. This partly reflects differences in accounting for pensions arrears and the debt of the food reserve agency, as well as higher expenditure forecasts.

The biggest challenges for the Government remain the maintenance of high economic growth, the diversification of the economy, the creation of jobs, the reduction of poverty and inequality, and improving the competitiveness of the economy by lowering the costs of doing business in Zambia. The aim of the Government's 2013 economic programme was to increase growth while keeping inflation below 6 per cent. However, in December 2013, inflation stood at 7.1 per cent., as a result of the Government's removal of the fuel subsidy and a food subsidy paid to milling companies in the first half of the year, as well as increase in the public sector wage bill and depreciation of the Kwacha exchange rate. Economic growth is projected to fall to around 6.4 per cent., largely due to a decline in agriculture sector output. The Government plans to reform the maize marketing and fertilizer support programme to ensure that it targets the neediest farmers, extends support to other crops beyond maize and to ensure greater involvement of the private sector in these areas. The Government also aims to reduce maize purchases to that required to maintain food security.

For 2013, the focus of the Government budget was on job creation and poverty alleviation with incentives provided to the agriculture, manufacturing, tourism and construction sectors which offer the best prospects for achieving strong economic growth that creates jobs and reduces poverty. The Government also allocated significant resources to the health and education sectors which accounted for 11.3 per cent. and 17.5 per cent. of the budget respectively.

For 2014, the Government has allocated in the budget greater resources to the areas which it deems most need improvement. The Government has increased budgetary allocations of 28.0 per cent. to economic affairs programmes including agriculture, energy and transport, 25.1 per cent. to general public services, 20.2 per cent. to education, and 9.9 per cent. to health.

Overview of Risk Factors Relating to the Republic of Zambia, the Notes and the Trading Market for the Notes

An investment in the Notes involves significant risks, including (among others):

- the Zambian economy is largely dependent on copper production and global market prices for copper;
- Zambia suffers from high levels of poverty and unemployment;
- Zambia's economy faces certain structural challenges;
- certain Government policies may adversely impact economic growth;
- certain political issues could threaten Zambia's political stability;
- Zambia suffers from electricity shortages;
- failure to lower Zambia's disease burden, in particular HIV/AIDS, could adversely affect Zambia's economy;
- it may be difficult for investors to obtain or realise judgments of courts in other countries against Zambia;
- estimated and projected financial and statistical data may be based on imprecise or incorrect assumptions and, along with historical financial statistical data, are subject to periodic review and revision;
- Zambia has experienced high inflation in the past and its macroeconomic stability is subject to successful fiscal and monetary policy;
- Zambia's mining sector may create environmental hazards;
- the terms of the Notes may be modified, waived or substituted without the consent of all the Holders of the Notes;
- Events of Default;
- English law, which governs the terms of the Notes, may change over time;
- definitive Notes not denominated in an integral multiple of US$200,000 or its equivalent may be illiquid and difficult to trade;
- enforcement against the Issuer within the Republic of Zambia would be subject to Zambian law notwithstanding the choice of English law as the law governing the Notes;
- there may be no active trading market for the Notes;
- a claimant may not be able to enforce a court judgment against certain assets of Zambia in certain jurisdictions;
- fluctuations in exchange rates and interest rates may adversely affect the value of the Notes;
- legal investment considerations may restrict certain investments;

- credit ratings may not reflect all risks; and
- the EU Savings Directive may result in certain holders not receiving the full amount of interest.

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

This overview does not purport to be complete and must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "*Terms and Conditions of the Notes*" shall have the same meanings in this overview.

Issuer	The Minister of Finance acting for and on behalf of the Republic of Zambia.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. These are set out under "*Risk Factors*" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are also set out under "*Risk Factors*".
Issue Date	14 April 2014 (the "**Issue Date**")
Maturity Date	14 April 2024
Description of Notes	US$1,000,000,000 8.500 per cent. Notes due 2024, to be issued by the Issuer on the Issue Date.
Joint Lead Managers	Barclays Bank PLC Deutsche Bank AG, London Branch
Interest	8.500 per cent., per annum payable semi-annually in arrear on 14 April and 14 October in each year.
Redemption	The Issuer will redeem the Notes at their principal amount on the Maturity Date.
Events of Default	Events of default under the Notes include the non-payment of principal within 15 business days of the due date thereof, the non-payment of any interest due in respect of the Notes or any of them for a period of 30 days from the due date for payment thereof, breach of other obligations under the Notes (which breach is not remedied within 45 days) and certain events related to the Issuer. Notes may be declared due and payable, upon an Event of Default, by a Noteholder, holding at least 25 per cent. in aggregate principal amount of the outstanding Note giving notice in writing to the Issuer. (See "*Terms and Conditions of the Notes–Events of Default*").
Negative Pledge	The terms of the Notes contain a negative pledge provision given by the Issuer in respect of Public External Indebtedness as described in Condition 3 (*Negative Pledge*).
Status of the Notes	The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Meetings of Noteholders	The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally (see Condition 12 (*Meetings of Noteholders; Modification*)). These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.
Taxation	All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of any Taxes as provided in Condition 7 (*Taxation*).
Listing and admission to trading	Application has been made to list the Notes on the Official List of the FCA and to admit the Notes to trading on the Regulated Market of the London Stock Exchange.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
Form and Denomination	The Notes will be issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. See "*The Global Certificates–Form of Notes*".
Credit Ratings	The Notes are expected to be assigned on issue a rating of B+ by Standard & Poor's and B by Fitch. The Issuer has been assigned a rating of B+ (negative) by Standard & Poor's and B (stable) by Fitch. Fitch and Standard & Poor's are established in the European Union and are registered under the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. See "*Risk Factors–Risks Relating to the Notes–Credit ratings may not reflect all risks*".
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfers. See "*Subscription and Sale*" below.
Transfer Restrictions	The Notes have not been and will not be registered under the US Securities Act or any US state securities law. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and applicable state securities laws. See "*Transfer Restrictions*". Neither this Prospectus nor the Notes are required to be registered or cleared under the regulations of the Zambian SEC.
Use of Proceeds	The net proceeds of the issue of the Notes will be used by the Issuer for investments in transportation, the energy sector and for general budgetary purposes.
Paying Agent	The Bank of Zambia.
Administrative Agent and Transfer Agent	Deutsche Bank AG, London Branch.

Non-US Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.	
US Registrar, Transfer Agent and Paying Agent	Deutsche Bank Trust Company Americas	
	Unrestricted Global Note	Restricted Global Note
ISIN	XS1056386714	US988895AE81
Common Code	105638671	
CUSIP		988895 AE8

RISK FACTORS

Prospective investors should read the entire Prospectus. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section. Investing in the Notes involves certain risks. The Issuer believes that the following factors may affect the Republic of Zambia's economy and its ability to fulfil its obligations under the Notes. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. These factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay principal, interest or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes comprise an exhaustive list of the risks inherent in investing in the Notes, and the Issuer may be unable to pay amounts due on the Notes for reasons not described below. Prospective investors should also read the detailed information set out elsewhere in this Prospectus prior to making any investment decision.

Risks Relating to the Republic of Zambia

The Zambian economy is largely dependent on copper production and global market prices for copper

The Zambian economy remains concentrated in copper mining and its lack of diversification has resulted in an over reliance on copper and copper products for foreign exchange earnings and foreign direct investment. In 2012, Zambia was Africa's largest and the world's seventh largest copper producer according to the US Geological Survey, although Zambian copper production fluctuates. During 2012, copper production fell by 4.1 per cent. compared to 2011. This was in part because small scale miners produced 42.3 per cent. less copper due to inadequate exploration, financing and equipment. However, in 2013, copper production by the 10 largest major companies operating in Zambia grew by 12.3 per cent. compared to year end 2012. While metals mining accounted for only 7.7 per cent. of Zambia's real GDP (preliminary) in 2013, copper and cobalt exports reached an amount equal to approximately 45 per cent. of Zambian GDP and comprised approximately 68 per cent. of total export receipts. The discrepancy is primarily a result of Zambia's methodology for recording GDP, whereby the current estimates are based on the structure of the economy in 1994 when the mining sector had declined significantly and the sector's share in the economy was low. In addition, the mining sector includes only the extractive process and does not account for refining and other processing, which are accounted for in manufacturing and trade. Furthermore, there are discrepancies in the mining sector production data published by the Government, the Bank of Zambia and the mining sector due to various departments collecting data from different sources. The Government has established a mining sector value chain monitoring project to produce consistent mining sector data and the Government expects that the project team will deliver to the Government its initial findings in 2014.

As a result of generous development agreements that were signed with international mining companies in the late 1990s with the privatisation of the industry, and the fact that most mining companies had to undertake large capital expenditures to revive production and therefore had tax losses that they have carried forward, the Government has not been receiving significant revenues from the mining sector. Coupled with the sector's historically low (although increased from 3 per cent. to 6 per cent. in 2012) royalty rates, Zambian mining companies do not yet contribute to government revenues in a proportion that is equivalent to their impact on the economy.

Surges in copper prices and increased production contributed to increases in Zambia's macroeconomic stability prior to 2008 and again in 2011. However, copper prices and commodities markets historically have been very volatile, and they are likely to continue to be volatile in the future. In particular, the standard deviation of international copper price variations for the period 2001 to 2010 was five times the standard deviation in 1980 and 2000. Prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, copper, market uncertainty and a variety of additional factors that are beyond Zambia's control. The global financial crisis affected Zambia due to a sharp, albeit brief, drop in copper prices, which decreased from approximately US$8,684 per metric tonne ("**Mt**") in April 2008 to US$3,070 per Mt in December 2008 before recovering again to US$7,400 per Mt in March 2010. This resulted in a decline in copper trade volumes and export earnings in the fourth quarter of 2008 and the first quarter of 2009. By June 2013, global prices for copper had decreased 27.5 per cent. from their post-crisis peak in 2011, to US$7,000 per Mt. In 2013 copper prices averaged US$7,073.82 per Mt compared to an average of US$7,135.84 per Mt in 2012.

The Eurozone crisis has had a relatively minor effect on the Zambian economy to date, with mining companies largely continuing their plans to expand their operations in the country. However, if the global economy weakens further or if any economic contraction occurs, this could reduce demand for Zambian exports, further reduce copper prices, affect trade credit lines and in general have an adverse effect on all levels of foreign investment, volumes of foreign exports, the strength of the banking sector, and Zambia's economy in general.

Furthermore, trade unions have a significant impact on Zambia's labour relations in the mining sector, as well as on social and political reforms, and a significant majority of employees in the Zambian mining sector are unionised. There is a risk that strikes or other types of industrial action may have an impact on the supply of labour and any labour disruptions could have an adverse effect on the mining sector's output in particular and on Zambia's economic growth in general.

Any significant decrease in the price of copper could adversely affect Zambia's export earnings, balance of trade and its external liquidity. Any decrease in the production, demand for or price of copper and other commodities on which Zambia relies could have a material adverse effect on Zambia's economy. Finally, if Zambia is unable to diversify its economy away from the copper sector there is a risk that a decrease in the production of, or prices for, copper and copper products could significantly reduce Zambia's foreign exchange earnings and could result in significant trade deficits and lower economic growth.

Certain Government policies may adversely impact economic growth

The Government's 2013 expenditures were significantly higher than as originally set out in the 2013 Budget Address due to, among other factors, the clearance of arrears relating to the fuel subsidy (removed in May 2013), higher than projected expenditures on the strategic food reserve and the FISP, as well as higher pay for civil servants introduced in September 2013. As a result, while Zambia's 2013 budget anticipated a fiscal deficit of 4.3 per cent. of GDP, preliminary data indicates that the fiscal deficit reached approximately 6.8 per cent. of GDP for 2013. In October 2013, Fitch downgraded Zambia's long term foreign currency rating from B+ to B, and Standard & Poor's changed Zambia's outlook from stable to negative. In taking these actions the credit rating agencies expressed concern with respect to what they perceived to be a more expansionary fiscal approach, the increase in the public sector wage bill, delayed cuts to subsidies and a wider than expected budget deficit. If the Government is not able to implement policies to reduce expenditures and limit Zambia's fiscal deficit, it may face further downgrades of its credit ratings and could have an adverse impact on the Zambian economy.

Zambia's governing PF party came to power in elections held in September 2011, which marked the end of two decades of rule of the MMD party. While the new Government is committed to continuing its predecessor's market based economic policies, certain of the new Government's policies (such as those focussed on promoting job growth and reducing poverty and inequality) may require adjustments to previous economic policies in order for the new Government to achieve its goals. In response to these changes, the rating agency Fitch changed Zambia's outlook from stable to negative in March 2012, expressing concern with respect to what it perceived to be inconsistent and uncoordinated economic policy pronouncements and a general lack of clarity around the Government's economic policies. In March 2014 Fitch affirmed Zambia's long term foreign currency rating at B and changed outlook from negative to stable. In April 2014, Standard and Poor's affirmed Zambia's long term foreign currency rating at B+ (negative).

In 2008, Zambia passed the Mines and Minerals Development Act ("**MMDA**"), which among other things stipulates that development agreements previously granted to mining companies ceased to be binding on Zambia. Most development agreements executed prior to 2008 provided for favourable tax and royalty rates in relation to, among other things, corporate income tax rates, carry forward of tax losses, deductibility of capital expenditures and customs and excise duties for periods of up to 15 years. However, as a result of the MMDA, mining companies are now subject to the much higher tax and royalty rates introduced as part of recent legislative reforms aimed at generating more Government revenue from the commodities sector. As a result, there is a risk that mining companies that previously enjoyed various incentives under their development agreements may claim that the Government improperly terminated their development agreements by implementing the MMDA, and that such companies have suffered losses as a result of such development agreements being terminated. In particular, in January 2013, First Quantum Mining and Operations Limited ("**FQM**") initiated arbitration proceedings against Zambia claiming, among other things, that under its original development agreement, no duty or VAT would be imposed on ores imported for treatment at its Bwana Mkubwa plant, but that between 2006 and 2008 VAT was imposed on FQM's ores imported for treatment following the promulgation of a new value added tax on copper ore imports. FQM is claiming up to US$30 million in damages and a declaration that the MMDA was unlawfully implemented and that FQM's original development agreement is still binding. In 2014, FQM withdrew from the arbitration proceedings. However, FQM and the Government are continuing to engage in discussions regarding FQM's operations in Zambia. If FQM or other mining companies were to bring similar claims against the Government with respect to other mining assets in Zambia and such claims were successful, there is a risk that the Government could be liable to pay damages to such companies and that investment in Zambia could be adversely affected.

Koncola Copper Mines plc ("**KCM**"), a subsidiary of Vedanta Resources plc, has recently been involved in discussions with the Government over a number of matters including employee levels, tax payments and other financial challenges faced by KCM. The Government has established a team to review KCM's challenges.There is a risk that if discussions will not be successful or KCM will not be able to address its financial challenges, this could have a negative impact on investments in Zambia and hamper growth in the mining sector.

The Government introduced several statutory instruments in 2012 and 2013 which aimed to strengthen the regulatory framework governing the mining sector and increase the minimum pay level for workers. To date, these instruments have not had an appreciable impact on foreign investment or economic growth, but there is a risk that over time they could adversely affect the Zambian economy as discussed below:

- Statutory Instrument 6 of 2012 ("**SI 6**") provides for more detailed reporting by mining companies of the nature, quality and quantity of minerals being mined to key regulatory agencies such as the Ministry of Mines and the Zambia Revenue Authority, which could result in mining companies having to pay higher tax or royalty payments than they have in the past.

- Statutory Instrument 34 of 2012 ("**SI 34**"), which came into effect in June 2012, made it mandatory for mining rights holders to submit detailed annual reports on the recovery percentages and efficiency of all mining and metallurgical processes, as well as programmes of operation for the subsequent years.

- Statutory Instruments 45, 46 and 47 of 2012 ("**SI 45, 46, 47**"), enacted in July 2012, increased the minimum wage for domestic, general non-unionised and shop workers by over 50 per cent., bringing the daily wage of workers in these categories to between US$3.6 and US$10 per day at the exchange rate of approximately K5.4 to US$1. As a result, certain industry sectors may face increased labour costs, which could in turn impact on their competitiveness and discourage investment. The Government is in discussions with key stakeholders to implement a minimum wage using an industry sector based approach.

Furthermore, on assuming office, the Government launched several investigations into the management of state owned enterprises, including those involving infrastructure concessions, some of which have been criticised by the World Bank for imposing discriminatory pricing and abusing their monopoly power. Subsequent to these investigations, the Government cancelled the rail concession granted by the national railway company to a private sector partner. In addition, in early 2012 the Government reversed the sale of the Zambia Telecommunications Company ("**Zamtel**") to Libya's LAP Green Networks ("**LAP**") alleging that the sale significantly undervalued Zamtel and that the sale was illegal and in September 2013, the Government cancelled a US$210 million contract with China's ZTE Corporation over allegations of corruption. LAP made an application to transfer the proceedings to London and in March 2013 the High Court of Lusaka granted the order. The Government has appealed against the order and is amenable to out-of-court settlement with LAP. Furthermore, the Government cancelled the concession to develop border infrastructure and to manage infrastructure at Kasumbalesa border. The Government is currently in discussions with the concessionaire and is working towards reaching a settlement. There is a risk that these actions could individually or in aggregate impact the perception of a favourable investment climate in Zambia or could result in additional fiscal costs to the Government. In the event that the Government's recent actions are perceived to discourage investment in the country, this could have an adverse effect on Zambia's economy.

Finally, the Government is considering introducing various policies and legislation, including a new constitution, which may, either individually or in the aggregate, have an impact on Zambia's economy as well as the Government's revenue and expenditures. To the extent that such policies and legislation, once adopted, combined with the Statutory Instruments and recent actions of the Government discussed above, are perceived to create a negative impression internationally or within Zambia's business community there is a risk that such policies and legislation could discourage investment in Zambia, which in turn could have an adverse effect on Zambia's economy.

Zambia suffers from high levels of poverty and unemployment

Despite strong macroeconomic performance over the past decade, poverty remains high in Zambia, with approximately 60.5 per cent. of the population living below the poverty line in 2010. Zambia's rank in the United Nations Development Program ("**UNDP**") Human Development Index ("**HDI**"), a composite measure of life expectancy, education, and incomes was 0.448 in 2012, below the Sub-Saharan African average of 0.475. According to the IMF, economic growth has not sufficiently benefitted the areas in which most of the poor live and the sectors in which most are engaged. Zambia's most recent employment data is derived from the LFS 2012, which recorded overall unemployment in Zambia to be approximately 7.8 per cent. However, the Government estimates that youth unemployment may currently be as high as 17.2 per cent. in urban areas and 4.4 per cent. in rural communities.

If high levels of poverty and unemployment are not addressed, they could become a source of political and social instability in Zambia. Furthermore, failure to reduce poverty and unemployment may individually or in the aggregate have negative effects on the Zambian economy and, as a result, a material adverse effect on Zambia's capacity to service the Notes.

Zambia's economy faces certain structural challenges

Zambia's economy faces significant challenges which could affect its ability to sustain growth over the long term. These include inadequate infrastructure, including poor transport infrastructure that suffers from a deteriorating rail system that results in over-burdened road networks and higher transportation costs; expensive and inadequate information and communications technology services; low human capital development with a workforce that is largely unskilled, has limited access to higher education and is in poor health; high costs of doing business generally and in particular for the provision of financial services which limits the ability of entrepreneurs and small and medium enterprises to expand their businesses; weak accountability and monitoring systems in public expenditure management; and limited land ownership rights due to a bureaucratic land administration and registration system. According to the World Bank, Zambia's forest cover extended to 66.3 per cent. of its land mass in 2011 making it one of the most forested countries in Southern Africa, although it also has one of the highest deforestation rates in the world.

Zambia also has a large informal sector engaged primarily in agriculture and approximately 70 per cent. of the total workforce comprises agricultural workers. Failure to improve agricultural productivity could hinder poverty reduction, which in turn could have adverse consequences on the economy and social cohesion. In addition, the price at which Zambia's Food Reserve Agency purchases maize has in the past been set above market clearing levels, which has resulted in high maize prices that disadvantage the urban poor as well as poor smallholders who are net buyers of maize. Past agriculture policies have also caused an over-production of maize and hindered the development of other segments of the agricultural sector. In order to reduce the Food Reserve Agency budget overrun, in May 2013, the Government reduced maize and fertiliser subsidies. The fiscal benefits of the reduction in maize subsidies will depend on whether the Government is successful in redirecting revenues towards the diversification of agriculture production and improving targeted support for small and emerging farmers. Furthermore, the informal economy is not recorded and therefore cannot be effectively taxed, resulting in not only a lack of revenue for the Government but also ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contribution of various sectors to GDP) and the inability to monitor or otherwise regulate a large portion of the economy.

The Government has undertaken and has committed in the Sixth National Development Plan (covering 2011 to 2015) (the "**SNDP**") to undertake various projects to improve each of these challenges. Projects are underway to improve infrastructure, housing, hospitals, water, drainage and sanitation and increase provision of medical equipment. In addition, the PF has identified health, education, agriculture, local government and housing as areas of priority in addressing issues of poverty and inequality. However, if these projects and initiatives do not succeed, the challenges presented in these areas could have an adverse effect on Zambia's economy.

Certain political issues could threaten Zambia's political stability

Some residents of Western Province have stated a desire for more autonomy in government and public affairs, and the MMD party was de-registered in March 2012 (but was subsequently reinstated). There is a risk of political instability if certain Zambians feel marginalised from the political process. In addition, the Government has pledged to address corruption in the country but to the extent such measures are deemed to inadequately address actual or perceived corruption there could be an adverse impact on public perception of the Government as well as the economy.

Zambia suffers from electricity shortages

Lack of sufficient and reliable electricity supply remains an impediment to Zambia's economic growth and development. The degree of electrification in Zambia is low. Access to electricity is largely limited to the urban centres of Lusaka, Livingstone and Copperbelt. In 2010, the World Bank estimated that only 18.5 per cent. of the population had access to electricity. Zambia experienced major blackouts in 2006, 2008, 2009 and 2010. More recently power transformer failures leading to blackouts have become more frequent. In particular, the mining industry accounts for approximately one-half of electricity use in Zambia and any shortages in Zambian or regional supply could have an adverse effect on metals production, which in turn could have an adverse effect on Zambia's economy. The demand for electricity in Zambia continues to increase with the further expansion of mining, agriculture and manufacturing, whilst the increase in supply will take longer to materialise, given the long gestation period for large scale power projects. The Government committed in the SNDP to increase electricity generation capacity by at least 1,000 megawatts ("**MW**") and to build appropriate transmission lines, as well as to increase electrification levels in the rural areas of Zambia to 15 per cent. by 2015. However, in recent years Southern Africa has experienced regional electricity shortages, while at the same time the demand in Zambia has increased. There can therefore be no assurance that Zambian power supplies will not experience future interruptions as the Zambian economy expands and new mining and other industrial projects proceed, thereby potentially increasing the demand on the national grid system. All of these factors could threaten the regular and adequate supply of electricity in Zambia, which could have an adverse effect on Zambia's economy and its level of economic growth.

Failure to lower Zambia's disease burden, in particular HIV/AIDS, could adversely affect Zambia's economy

HIV/AIDS and malaria are major healthcare challenges in Zambia and other countries in Southern Africa. According to research published by UNAIDS, as of 2012 there were approximately 1,100,000 people living with HIV in Zambia. The prevalence rate among its population of adults aged between 15 and 49 years old was 12.7 per cent. in 2012. According to the Ministry of Health, the incidence of malaria increased to 358.5 per 1,000 in 2013 from 337.5 per 1,000 people in 2012. Total diagnosis attributed to the disease increased by 7.3 per cent to 5,222,099 from 4,865, 995 in 2012. However, the number of in-patient deaths fell by 57.9 per cent. to 1,358 from 3,233 in 2012. Life expectancy in Zambia is estimated by the World Bank to be 56 years, which is low compared to other countries in the region and it is unlikely that maternal and child mortality rates will decline to meet the targets of Zambia's Millennium Development Goals (the "**MDGs**") by 2015 without significant additional resources. No assurance can be given that the prevalence of HIV/AIDS and malaria or other diseases in Zambia will not have a material adverse effect on the economy of Zambia.

It may be difficult for investors to obtain or realise judgments of courts in other countries against Zambia

It may be difficult for investors to obtain judgment against Zambia in foreign or Zambian courts or to enforce foreign judgments, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States against Zambia. Although Zambia will consent in the Terms and Conditions of the Notes to the giving of any relief or the issue of any process in connection with proceedings in England arising out of any dispute arising from or connected with the Notes and will agree to waive any immunity it may have in a suit, execution, attachment or other legal process in respect of any such proceedings, the waiver or immunity does not extend to civil liabilities under securities laws or to any other proceedings and excludes from its scope certain diplomatic, military and other government properties situated within the territory of Zambia. Moreover, the enforcement of foreign judgments is subject to the conditions and limitations described under "*Enforcement of Civil Liabilities*" and such limitations and conditions may make it difficult for investors to obtain or realise judgments of courts outside Zambia. Furthermore, a decision of the High Court of Zambia in 2010 held that the Foreign Judgments Act did not apply to judgments obtained in the United Kingdom and therefore enforcing the judgments of the courts of England and Wales directly by registration under the Foreign Judgments Act was not possible. As a result, absent a statutory order or other legislation addressing the enforcement of English court judgments in Zambia, it may be difficult for investors to obtain or realise judgments of English courts.

Estimated and projected financial and statistical data may be based on imprecise or incorrect assumptions and, along with historical financial statistical data, are subject to periodic review and revision

Assumptions used in order to calculate projected or estimated financial and statistical data may differ from those used by other sources and may be subject to revision. Some statistics, including those for 2013, are preliminary figures that are subject to later review. Prospective investors should be aware that estimates relating to GDP, balance of payments and other aggregate figures cited in this Prospectus may become outdated relatively quickly. Although significant improvements have been made in the compilation of the financial and statistical data, errors and omissions in both historical and estimated and projected data may persist as data collection is not always complete, which may result in such figures being revised in future periods. Compared to more developed countries, statistics produced by the Government may be more limited in scope, published less frequently and differ between sources. In addition, the significant size of the informal economy in Zambia means that statistics may overstate or understate the indicators to which they pertain.

Zambia has experienced high inflation in the past and its macroeconomic stability is subject to successful fiscal and monetary policy

Historically, inflation in Zambia has fluctuated significantly from year to year. In particular, inflation exceeded 30 per cent. in 2000, before dropping to single digit levels in recent years. Although tighter monetary policies have historically helped to curb inflation, the impact on inflation of global food prices and prices of other imports is beyond Zambia's control. In February 2014 inflation stood at 7.6 per cent. up from 7.1 per cent. in December 2013. The Government has committed in the 2014 Budget Address to attain end year inflation of no more than 6.5 per cent. Changes in monetary and/or fiscal policy may also result in higher rates of inflation. There can be no assurance that the inflation rate in Zambia will not rise in the future. Significant inflation could have a material adverse effect on the Zambia's economy.

Although Zambia has had favourable weather conditions in the recent past, any adverse weather conditions are likely to negatively affect agricultural production, with a disproportionate impact on small scale farmers. This could result in lower supplies of agricultural commodities such as food, as well as subdued manufacturing activity particularly in the food, beverages and tobacco subsector. Lower food supply could also induce higher food prices and, consequently, higher inflation. As a result, adverse weather conditions could have a negative impact on Zambia's economy.

Zambia has established relative macroeconomic stability characterised by strong growth, single digit inflation, low fiscal deficits and a relatively stable exchange rate. According to the IMF 2013 Article IV Consultation Paper, the overall GDP growth will increase to 7.3 per cent. in 2014, from 6 per cent. a year earlier as a result of increase in copper exports and economic diversification in areas such as electricity generation, agriculture and tourism. However, the IMF pointed out that the 2014 Budget Address envisages a fiscal deficit of 6.2 per cent. of GDP in 2014, above IMF's recommendation of 5 per cent. According to the World Bank, unbudgeted fuel subsidies, pension arrears, and significant overruns in the cost of maize marketing have led to the weakening of fiscal discipline. In 2012 the Government introduced changes to monetary policy implementation through the introduction of a policy rate, which was a first step towards an interest rate targeting regime. If Zambia's fiscal and monetary policies are not successful, its macroeconomic stability could be threatened, which could have an adverse effect on Zambia's economy and its ability to repay the Notes.

Zambia's mining sector may create environmental hazards

Zambia has a significant mining sector which is expected to continue to grow steadily in coming years. While all mining projects are subject to a statutory approval process with regards to potential environmental impact, mining activities create and increase the risk of environmental hazards as a result of the processes and chemicals used in the extraction and production methods. In addition, mining companies in Zambia regularly transport, use and dispose of hazardous substances such as sulphuric acid and xanthates, which give rise to the risk of spillage or seepage in areas where there could be damage or harm caused to the environment (such as one major mining company's recent pollution of the Kafue River) and/or to the public. Environmental hazards may exist on mining companies' properties, or may be encountered while their products are in transit, which are currently unknown to them or may arise irrespective of such compliance.

The Government has implemented rules and regulations to address the environmental impact of the mining and other industries, but there can be no guarantee that an incident causing significant environmental damage in Zambia will not occur, which could have an adverse effect on the planned growth of the mining industry and the economy of Zambia.

Any future borrowing beyond sustainable levels could have a material adverse effect on Zambia's economy and its ability to service its debt, including the Notes

Prior to debt forgiveness programmes such as the HIPC and MDRI initiatives in 2005 and 2006, Zambia's high level of external debt was generally considered unsustainable, with external debt equal to 92.6 per cent of GDP in 2004 prior to the HIPC and MDRI initiatives. Whilst Zambia's external debt to nominal GDP did not exceeded 11.5 per cent. between 2008 and 2011, was 16.9 per cent. in 2012 and 15 per cent. in 2013, and remains well below internationally accepted debt sustainability threshold of 40 per cent., any significant future borrowings beyond sustainable thresholds, including the issuance of domestic debt to finance Zambia's fiscal deficits and the issuance of external debt on international capital markets, could increase Zambia's risk of external debt distress. Furthermore, on 28 November 2013 the Parliament approved an increase of external debt ceiling from K20 billion to K35 billion (approximately US$7 billion), which could indicate additional external borrowings in the future (including the Notes offered hereby). In February 2014, the Government also increased the short-term and long-term domestic debt limits to K13 billion (approximately US$2.6 billion) and K20 billion (approximately US$4 billion), respectively. If the Government does not carefully manage its debt strategy, debt levels could once again rise to an unsustainable level which may negatively impact Zambia's ability to service the Notes.

Risks Relating to the Notes

The terms of the Notes may be modified, waived or substituted without the consent of all the Holders of the Notes

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Any such change in the terms of the Notes may adversely affect the trading price of the Notes.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error, or if an amendment to the conditions would not be materially prejudicial to the interests of the Noteholders.

Events of Default

The conditions of the Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent., in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

English Law, which governs the terms of the Notes, may change over time

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or changes in English law or practice after the date of this Prospectus.

Definitive Notes not denominated in an integral multiple of US$200,000 or its equivalent may be illiquid and difficult to trade

The Notes have denominations consisting of a minimum of US$200,000 plus integral multiples of US$1,000 in excess thereof. It is possible that the Notes may be traded in amounts that are not integral multiples of US$200,000. In each, such holder who, as a result of trading such amounts, holds an amount which is less than US$200,000 in his account with the relevant clearing system at the relevant time may not receive a Certificate in respect of such holding (should Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to US$200,000.

If Certificates are issued, holders should be aware that Certificates which have a denomination that is not an integral multiple of US$200,000 may be illiquid and more difficult to trade than Notes denominated in an integral multiple of US$200,000.

Enforcement proceedings against the Issuer within the Republic of Zambia would be subject to Zambian law notwithstanding the choice of English law as the law governing the Notes

The Notes are governed by English law and the Issuer has submitted to the exclusive jurisdiction of the courts of England to settle any disputes that may arise out of or in connection with any Note. In respect of any proceedings between (i) the Issuer and a Zambian natural or legal person (which proceedings also includes a non-Zambian natural or legal person) or (ii) the Issuer and a non-Zambian natural or legal person, a Zambian court will ordinarily recognise and give effect to the choice of English law as the law governing the Notes except that all matters concerning capacity of the Issuer to contract, authorisation and execution by the Issuer, as well as the bringing of any actions and the enforcement of any judgments against the Issuer in the courts of Zambia, will be governed by Zambian law. Once recognised, the foreign judgment is equivalent to the judgment of a Zambian court and is capable of enforcement in Zambia. Furthermore, arbitration is recognised in Zambia as a method of dispute resolution and is governed by Statute under the Zambian Arbitration Act (the "**Arbitration Act**"). Among other things, the Arbitration Act allows for the recognition and enforcement of an arbitral award upon application in writing to the competent court in the jurisdiction of Zambia, irrespective of the country in which the award was made. Foreign arbitral awards are therefore recognised and can be enforced upon being registered in Zambia.

There may be no active trading market for the Notes

Although an application has been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

A claimant may not be able to enforce a court judgment against certain assets of Zambia in certain jurisdictions

There is a risk that, notwithstanding the waiver of sovereign immunity by the Republic of Zambia, a claimant will not be able to enforce a court judgment against certain assets of the Republic of Zambia in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without the Republic of Zambia having specifically consented to such enforcement at the time when the enforcement is sought.

The foreign exchange reserves of the Republic of Zambia are controlled and administered by the Bank of Zambia, which is an independent central bank legally distinct from the Government and acts as banker and fiscal agent to the Republic of Zambia. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

A judgment by a Zambian court will ordinarily be awarded in Zambian kwacha, but may be awarded in a foreign currency, *provided that* such judgment relates to an international transaction as defined by the Bank of Zambia. Similarly, when enforcing a foreign judgment awarded in a currency other than Zambian kwacha, a Zambian court may convert such award into Zambian kwacha. In that event, there may be a discrepancy between the rate of exchange used by the Zambian court to convert such award into Zambian kwacha, and the rate of exchange which may be obtained in the market to convert such award from Zambian kwacha back into another currency. A Noteholder who is awarded a judgment may therefore incur a loss as a result of such exchange rate differences. A currency indemnity has been included in the terms and conditions (see Condition 16 (*Currency Indemnity*)), however, the cost of enforcement of such condition may nevertheless result in a loss by such Noteholder.

The Zambian high court has a wide discretion in determining whether or not to enforce a foreign judgement on the grounds of matters of public policy.

Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes

The Issuer will pay principal and interest on the Notes in US Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to US Dollars would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency equivalent value of the principal payable on the Notes and the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. In addition, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent the Notes are legal investments for it, the Notes can be used as collateral for various types of borrowing and other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

Fitch and Standard & Poor's are expected to assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit-rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended).

The EU Savings Directive may result in certain holders not receiving the full amount of interest

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings

Directive) paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entities (within the meaning of article 4.2 of the EU Savings Directive) established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to payments. Luxembourg has announced that it will no longer apply its withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities (within the meaning of article 4.2 of the EU Savings Directive) established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

TERMS AND CONDITIONS OF THE NOTES

The US$1,000,000,000 8.500 per cent. Notes due 2024 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of the Minister of Finance acting for and on behalf of the Republic of Zambia (the "**Issuer**") are constituted by and subject to, and have the benefit of a deed of covenant dated 14 April 2014 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of an agency agreement dated 14 April 2014 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Bank of Zambia as paying agent, Deutsche Bank Luxembourg S.A. as non-US registrar (the "**Non-US Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas as US registrar and US paying agent (the "**US Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), and together with the Non-US Registrar, the "**Registrars**"), Deutsche Bank AG, London Branch as administrative agent (the "**Administrative Agent**", which expression includes any successor administrative agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (the "**Paying Agents**, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrars, the Administrative Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection and collection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Status

(a) *Form and denomination:*

The Notes are in registered form in the denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status:*

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The full faith and credit of the Issuer is pledged for the due and punctual payment of the Notes.

2. Register, Title and Transfers

(a) *Register:*

Each Registrar will maintain a register (each a "**Register**") in respect of the relevant Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the relevant Register.

(b) *Title:*

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*:

Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as the relevant Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*:

Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*:

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the relevant Registrar or any Transfer Agent but against such indemnity as the relevant Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*:

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*:

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Negative Pledge

(a) *Negative Pledge*:

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 3(c) (*Exceptions*) create, incur, assume or permit to subsist any Security upon the whole or any part of its present or future assets, undertakings or revenues to secure:

(i) any of its Public External Indebtedness;

(ii) any Guarantees in respect of Public External Indebtedness; or

(iii) the Public External Indebtedness of any other person;

without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution of Noteholders.

(b) *Interpretation:*

In these Conditions:

"**External Indebtedness**" means any Indebtedness expressed or denominated or payable or which, at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of The Republic of Zambia;

"**Guarantee**" means any obligation of a person to pay the Indebtedness of another person including, without limitation: an obligation to pay or purchase such Indebtedness; an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; an indemnity against the consequences of a default in the payment of such Indebtedness; or any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

"**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust or other juridical entity, state or agency of a state or other entity, whether or not having a separate legal personality;

"**Public External Indebtedness**" means any External Indebtedness which is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which are, or are capable of being, quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market; and

"**Security**" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, anything analogous to the foregoing under the laws of any jurisdiction.

(c) *Exceptions:*

The following exceptions apply to the Issuer's obligations under Condition 3(a) (*Negative Pledge*):

(i) any Security upon property to secure Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person, in each case incurred for the purpose of financing the acquisition or construction of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing;

(ii) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person, in each case incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; *provided that* (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the sole source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues; and

(iii) any Security securing the Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person which was in existence on 8 April 2014.

4. Interest

The Notes bear interest from 14 April 2014 (the "**Issue Date**") at the rate of 8.500 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 14 April and 14 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from its due date for redemption unless, upon due presentation, payment of principal in respect of such Note is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder.

The amount of interest payable on each Interest Payment Date shall be US$8,500 in respect of each Note of US$200,000 denomination and, where Notes are issued in Authorised Denominations in excess thereof, US$42.50 in respect of each Calculation Amount (as defined below). If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means US$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) *Scheduled redemption:*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 14 April 2024, subject as provided in Condition 6 (*Payments*).

(b) *Purchase:*

The Issuer may at any time purchase Notes in the open market or otherwise and at any price, *provided that* such purchase is made in accordance with the United States Securities Act of 1933, as amended (the "**Securities Act**") and any other applicable securities laws.

(c) *Cancellation:*

Any Notes so purchased by the Issuer may be cancelled or held and resold (*provided that* any resales in the United States must be in accordance with an effective registration statement or in a transaction exempt from or not subject to the registration requirements of the Securities Act). Any Notes so purchased, while held by or on behalf of the Issuer shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of such meetings. Any Notes so cancelled will not be reissued.

6. Payments

(a) *Principal:*

Payments of principal shall be made by US dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Administrative Agent not later than the fifteenth day before the due date for any such payment, by transfer to a US dollar account maintained by the payee with, a bank that processes payments in US Dollars and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of the Administrative Agent.

(b) *Interest:*

Payments of interest shall be made by US dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Administrative Agent not later than the fifteenth day before the due date for any such payment, by transfer to a US dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of the Administrative Agent.

(c) *Payments subject to fiscal laws:*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*:

Where payment is to be made by transfer to a US dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by US dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Administrative Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day, (B) if the Noteholder is late in surrendering its Note Certificate (if required to do so) or (C) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and Lusaka and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments:*

If a Paying Agent makes a partial payment in respect of any Note, the relevant Registrar shall procure that the amount and date of such payment are noted on the relevant Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*:

Each payment in respect of a Note will be made to the person shown as the Holder in the relevant Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the relevant Register at the opening of business on the relevant Record Date.

7. Taxation

The Issuer agrees that no taxes shall be payable or deductions made in respect of payments under the Notes. All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(i) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(iii) held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(iv) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions:

(a) "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*);

(b) Any reference to principal or interest shall be deemed to include any additional amounts in respect of such principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*); and

(c) "**Relevant Jurisdiction**" means the Republic of Zambia or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Republic of Zambia becomes subject in respect of payments made by it of principal and interest on the Notes.

8. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment:*

the Issuer fails to pay any amount of principal in respect of the Notes within 15 business days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations:*

the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Covenant and such default remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Administrative Agent; or

(c) *Cross-default of Issuer:*

(i) any External Indebtedness of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such External Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such External Indebtedness; or

(iii) the Issuer fails to pay when due any amount payable by it under any Guarantee of any External Indebtedness within any originally applicable grace period;

provided that (x) the amount of External Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds US$ 25 million (or its equivalent in any other currency or currencies) and *provided further* that (y) for the purposes of this Condition 8 (*Events of Default*) only, the definition of "**External Indebtedness**" shall exclude (A) any Indebtedness of the

Issuer to the Federative Republic of Brazil or the Republic of Iraq outstanding as of 8 April 2014 as described on page 90 of the prospectus relating to the Notes dated 8 April 2014 (the "**Prospectus**") and (B) any external arrears accumulated by the Issuer prior to October 1985 as a result of the non-availability of foreign exchange and as described on page 91 of the Prospectus; or

(d) *IMF*:

the Issuer ceases to be a member of the International Monetary Fund (the "**IMF**"), or ceases to be eligible to use the general resources of the IMF; or

(e) *Moratorium:*

a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(f) *Validity:*

(i) the validity of the Notes shall be contested by the Issuer or any political subdivision thereof or any authority acting on behalf of the Issuer; or

(ii) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(iii) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or the Agency Agreement, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in The Republic of Zambia or any ruling of any court in The Republic of Zambia whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(g) *Consents:*

if any authorisation, consent of, or filing or registration with, any governmental authority necessary for the performance of any payment obligation of the Issuer under the Notes, when due, ceases to be in full force and effect or remain valid and subsisting, then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Administrative Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. No delay or omission of any Noteholder or any party to the Agency Agreement to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or other breach of the Issuer's obligations under the Agency Agreement.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes (as defined in the Agency Agreement) to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall, give notice thereof to the Noteholders (with a copy to the Administrative Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

9. Prescription

Claims for principal and interest shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the relevant Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, administrative agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain (a) an administrative agent, a transfer agent and a registrar in any major European city, and (b) a paying agent that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Written Resolutions

(a) *Convening Meetings of Noteholders*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer at any time upon the request in writing of holders of at least 10 per cent. of the aggregate principal amount of the outstanding Notes.

(b) *Quorum*

The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be:

(i) one or more persons present and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled meeting of Noteholders, one or more persons present whatever the aggregate principal amount of the outstanding Notes held by him or them;

provided, however, that any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present and holding or representing at least two thirds or at any adjourned meeting not less than one third of the aggregate principal amount of the outstanding Notes form a quorum.

(c) In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement by a majority of at least:

(i) in the case of a Reserved Matter, 75 per cent. of the aggregate principal amount of the outstanding Notes which are represented at that meeting; or

(ii) in the case of a matter other than a Reserved Matter, two thirds of the aggregate principal amount of the outstanding Notes which are represented at that meeting.

Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether they voted in favour or not.

(d) *Reserved Matters*

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iii) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition, the definition of "**Extraordinary Resolution**", the definition of "**outstanding**" or the definition of "**Written Resolution**";

(v) to change or waive the provisions of the Notes set out in Condition 1(b) (*Status*);

(vi) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 8 (*Events of Default*);

(vii) to change the law governing the Notes, the provisions relating to arbitration, the courts to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 18 (*Governing Law and Jurisdiction*); or

(viii) to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the holders of Notes which are subject to the Conditions as so modified than:

(1) the provisions of the other obligations or securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(2) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount.

(e) The Administrative Agent may agree, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

(f) *Written resolutions*

In addition, the Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a Reserved Matter, or two thirds of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them.

13. Noteholders' Committee

(a) *Appointment:*

The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Administrative Agent) signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Notes then outstanding (as defined in the Agency Agreement), appoint any person or persons as a committee to represent the interests of the Noteholders if any of the following events has occurred:

(i) an Event of Default;

(ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*) become an Event of Default; or

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise),

provided, however, that no such appointment shall be effective if the holders of more than 25 per cent. of the aggregate principal amount of the outstanding Notes have either (A) objected to such appointment by notice in writing to the Issuer (with a copy to the Administrative Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (B) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable after the notice is delivered to the Issuer.

(b) *Powers*

Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings, (iii) enter into discussions with the Issuer and/or other creditors of the Issuer, (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer, (v) determine whether or not there is an actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer and (vi) upon making a determination of the absence of any actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer, agree to transact business at a combined meeting of the committee and such other person or persons as may have been duly appointed as representatives of the holders of securities of each such other series. Except to the extent provided in this paragraph (b) (*Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes, *provided that* such additional notes, for purposes of US federal income taxation (regardless of whether any holders of such notes are subject to the US federal income tax laws), are issued in a "qualified reopening" for US federal income tax purposes.

15. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the relevant Register. Any notice shall be deemed to have been given on the fourth business day after the date of mailing.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Administrative Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law:*

The Notes, including any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant or the Notes, are governed by, and shall be construed in accordance with, the laws of England and Wales.

(b) *Arbitration:*

Subject to Condition 18(c) (*Noteholders' option*), the Issuer and the Noteholders agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a claim, dispute or difference regarding their existence, termination or validity and including any non-contractual obligations arising out of or in connection with the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") in force at the time of the filing of the Request for Arbitration (as defined in the Rules) and as modified by this paragraph, which Rules shall be deemed incorporated into this paragraph. The number of arbitrators shall be three, one of whom shall be nominated by the Claimant(s), one by the Respondent(s) and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, *provided that* if the Claimant(s) or Respondent(s) fail to nominate an arbitrator within the time limits specified by the Rules or the party-nominated arbitrators fail to nominate a Chairman within thirty days of the nomination of the second party-nominated arbitrator, such arbitrator shall be appointed promptly by the LCIA Court. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) *Noteholders' option*

At any time before the Noteholders have nominated an arbitrator to resolve any Dispute or Disputes pursuant to Condition 18(b) (*Arbitration*), the Noteholders, at their sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 18(d) (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

(d) *Jurisdiction:*

In the event that the Noteholders serve a written notice of election in respect of any Dispute(s) pursuant to Condition 18(c) (*Noteholders' option*), the Issuer agrees for the benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submits to the exclusive jurisdiction of such courts. Subject to Condition 18(b) (*Arbitration*), nothing in this paragraph shall (or shall be construed so as to) limit the right of the Noteholders to bring proceedings ("**Proceedings**") for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Noteholders in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) *Appropriate forum:*

For the purpose of Condition 18(d) (*Jurisdiction*), the Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

(f) *Service of Process:*

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 18(d) (*Jurisdiction*) or by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 18(d) (*Jurisdiction*) may be served on it by being delivered to the Zambia High Commission in London at 2 Palace Gate, Kensington, London W8 5NG. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of the Noteholders, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, the Noteholders shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Noteholders to serve process in any other manner permitted by law.

(g) *Consent to enforcement etc.:*

The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without (a) limitation but subject as provided in Condition 18(h) (*Sovereign immunity*) below) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(h) *Sovereign immunity:*

To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction (and consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any proceedings). The Issuer does not hereby waive such immunity from execution or attachment, or like process, in respect of (a) property, including any bank account, used by a diplomatic or consular mission of the Issuer or its special missions or delegations to international organisations, (b) property of a military character and under the control of a military authority or defence agency of the Issuer or (c) property located in the territory of the Republic of Zambia of which the ownership vests in the government of the Republic of Zambia. The Issuer reserves the right to plead sovereign immunity under the US Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of or in the United States of America under any United States federal or State securities law.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. FORM OF THE NOTES

The Notes sold in reliance on Regulation S under the Securities Act will be represented on issue by the Unrestricted Global Certificate, which will be deposited with, and registered in the name of a nominee for the common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in the Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A will be represented on issue by the Restricted Global Certificate, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Certificate. See "*Subscription and Sale*".

Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Transfer Restrictions*". On or prior to the 40th day after the later of the commencement of the offering and the Issue Date, ownership of interests in an Unrestricted Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to US persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is to a non-US person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is a non-US person in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such Unrestricted Global Certificate and become an interest in the Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

3. PAYMENTS

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Administrative Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Regulation S Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Rule 144A Notes holding through DTC will receive, to the extent received by the Paying Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Paying Agent through DTC. Distributions in the United States will be subject to relevant US tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Administrative Agent and shall be *prima facie* evidence that payment has been made.

4. NOTICES

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 15 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through

Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Administrative Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee after the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for any payment of principal, or interest in respect of the Notes, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

6. EXCHANGE FOR CERTIFICATES

(a) ***Exchange***

Each Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Restricted Certificates and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Unrestricted Certificates upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

(i) circumstances described in Condition 8 (*Events of Default*) have occurred;

(ii) in the case of an Unrestricted Global Certificate only, if Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

(iii) in the case of a Restricted Global Certificate only, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the relevant Global Certificate or DTC ceases to be a "clearing agency" registered under the US Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC,

provided that, in the case of any exchange pursuant to (b) or (c) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

(b) ***Delivery***

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted

Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

(c) ***Legends and transfers***

The holder of a Certificate may transfer the Notes represented thereby in whole or in part in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Subscription and Sale*", or upon specific request for removal of the legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Certificates will bear the same legend as the legend for the Restricted Global Certificates set out under "*Transfer Restrictions*". The Restricted Certificates may not at any time be held by or on behalf of US persons that are not QIBs. Before any Unrestricted Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Certificates will bear the same legend as the legend for the Unrestricted Global Certificates set out under "*Transfer Restrictions*". Before any Restricted Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the relevant Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is a non-US person in accordance with Regulation S.

USE OF PROCEEDS

The estimated net proceeds of the issue of the Notes, expected to amount to approximately US$990,124,950 after deduction of the combined management and underwriting commission and the other expenses incurred in connection with the issue of the Notes, will be used by the Issuer for investments in transportation, the energy sector and for general budgetary purposes.

THE REPUBLIC OF ZAMBIA

Location and Geography

Zambia is a landlocked country in Southern Africa. Zambia occupies approximately 752,614 square kilometres and is bordered by the Democratic Republic of Congo and Tanzania to the north, Angola to the west, Botswana, Namibia and Zimbabwe to the south and Malawi and Mozambique to the east.

The capital of Zambia is Lusaka, which is situated in the centre of the country. The LFS 2012 indicated a population of 14,375,601 with 60.2 per cent. in rural areas and 39.8 per cent. in urban areas. According to the World Bank, the population of Zambia reached 14.08 million in 2012.

Zambia has five main rivers: the Zambezi, the Kafue, the Luangwa, the Luapula and the Chambeshi. Zambia is located on the Central African plateau and has a cool mild climate with three distinct seasons: the cool dry season (May to August), the hot dry season (September to October/November) and the hot wet season (December to April). Temperatures range from eight degrees Celsius in the cool dry season to 35 degrees Celsius in the hot dry season. Rainfall ranges from 700 millimetres in the south to 1,400 millimetres in the northern high rainfall areas.

Zambia is rich in natural resources, in particular copper and cobalt, but also gold, nickel, uranium, emeralds, zinc, lead and coal.

Source: US Department of State

History

The area known as Zambia was first inhabited by hunter gatherers. During the first century, Bantu ethnic groups such as the Ila migrated from the Congo basin, displacing the San people who were pushed further south into drier areas. The Bantu-speaking people introduced the Iron Age and practised sedentary agriculture. They also hunted and fished to supplement their food requirements and engaged in regional and long distance trade.

The second wave of migration started in the twelfth century and continued up to the sixteenth century and was dominated by groups from the north, including the Bisa, the Lala, the Chewa, the Lenje, the Bemba, the Lozi, the Lunda, the Luvale, the Kaonde and the Mbunda, who wished to establish new settlements and kingdoms. The third wave of migration was dominated by groups from the south, such as the Kololo and the Ngoni.

Between the fifteenth and nineteenth centuries large numbers of the Bantu people migrated from the Luba and Lunda tribes of southern Democratic Republic of Congo and northern Angola and the Ngoni peoples migrated from the south.

In the late nineteenth century, the British South Africa Company administered various parts of what was to become Northern Rhodesia. In 1924, the British Colonial Office assumed responsibility for administering the territory.

In 1953, Northern Rhodesia (present day Zambia) and Southern Rhodesia (present day Zimbabwe) joined Nyasaland (present day Malawi) to form the Central African Federation of Rhodesia and Nyasaland. Following a two-stage election in October and December 1962, there was an African majority in the legislative council and a coalition between the two African nationalist parties. On 31 December 1963, the Federation was dissolved and on 24 October 1964 Zambia gained political independence and adopted a multiparty system of government.

Zambia actively contributed to the independence of its neighbours by supporting movements such as the National Union for the Total Independence of Angola (the "**UNITA**") and later the Popular Movement for the Liberation of Angola (the "**MPLA**"), the Zimbabwe African People's Union (the "**ZAPU**") and the Zimbabwe African Nationalist Union (the "**ZANU**"), the African National Congress of South Africa (the "**ANC**"), and the South-West Africa People's Organization (the "**SWAPO**").

From 1964 to 1991 Kenneth Kaunda led the country as leader of the United National Independence Party ("**UNIP**").

In 1973, the Zambian constitution was amended and a "one-party participatory democracy" was established, according to which UNIP was the only legal political party. Mr. Kaunda, the sole candidate, was elected president in the 1973 elections. Elections were also held for the Zambian National Assembly. Only UNIP members were permitted to run, but these seats were highly contested. President Kaunda's mandate was renewed in 1978, 1983, and 1988.

Following negotiations between the government of President Kaunda and opposition groups, Mr. Kaunda agreed to end the one-party state and Zambia enacted a new constitution in 1991 and became a multi-party democracy. On 31 October 1991, the MMD candidate Frederick Chiluba won the presidential election with 81 per cent. of the vote.

In May 1996, Mr. Chiluba was re-elected in the presidential and parliamentary elections and the MMD won 131 of the 150 seats in the National Assembly. Mr. Kaunda's UNIP party boycotted the parliamentary polls to protest the exclusion of its leader from the presidential race. As Mr. Chiluba began his second term in 1996, the results of the election were challenged amid international efforts to encourage the MMD and the opposition to resolve their differences through dialogue.

Eleven parties contested the presidential, parliamentary, and local government elections held on 27 December 2001. The MMD presidential candidate Levy Mwanawasa was sworn into office on 2 January 2002.

President Mwanawasa encouraged the Zambian Anti-Corruption Commission (the "**ACC**") to pursue its mandate, called for parliament to consider lifting Mr. Chiluba's immunity from prosecution and established the Task Force on Corruption.

Mr. Mwanawasa was re-elected president on 2 October 2006, with 43 per cent. of the vote. Prior to the election, the Government in mid-2006 introduced certain changes to enhance transparency and fairness and reduce corruption in the electoral process. President Mwanawasa suffered a debilitating stroke on 29 June 2008 and subsequently died in August of the same year. In accordance with the constitution, presidential elections were held within a period of three months and Vice President Rupiah Banda became President.

The MMD remained in power until September 2011 when Zambia held its most recent general elections. In the presidential elections, Michael Sata, from the PF party, was elected with 43.3 per cent. of the vote. In the elections for the National Assembly, the PF obtained 60 seats, the MMD obtained 55 seats and the United Party for National Development (the "**UPND**") obtained 28 seats. The remaining seats were split between two other parties, independents and two seats were not determined. As a result of subsequent bi-elections, as at the end of October 2013, the PF has 76 seats, the MMD has 42 seats, the UPND has 30 seats, and each of the FDD and the ADD have one seat.

Population, Education and Health

Population

The LFS 2012 recorded a population of 14,375,601. Lusaka Province, in which the capital Lusaka is situated, had a population of 2,491,054 in 2012, while the Copperbelt Province had a population of 2,195,257. Other major provinces include the Central Province, the Eastern Province, the Luapula Province, the Muchinga Province, the Northern Province, the North-Western Province, the Southern Province and the Western Province. Zambia has an urbanised population as 36 per cent. of its total, compared to 35 per cent. in the neighbouring Democratic Republic of Congo and 26 per cent. in Tanzania. The World Bank estimated that the total population had grown to 14.08 million in 2012, with 40 per cent. living in urban areas.

According to the World Bank, Zambia had a population growth rate of 3.2 per cent during 2012 and a relatively young population, with only 2 per cent. over 65 years of age, 51 per cent. between the ages of 15 and 64 and 47 per cent. under 14 during 2010.

Approximately 85 per cent. of Zambia's population is Christian, approximately 5 per cent. is Muslim, 5 per cent. is of indigenous beliefs and 5 per cent. is of other beliefs. There are more than 70 ethnic groups, including the Bemba, the Tonga, the Chewa, the Lozi, the Nsenga, the Tumbuka, the Ngoni, the Lala, the Kaonde and the Lunda. The official language in Zambia is English.

For comparative purposes, the table below sets out the selected demographic statistics for Zambia and for certain other countries and regions in 2012 (unless otherwise indicated):

	Zambia	**South Africa**	**Botswana**	**Nigeria**	**Ghana**	**Gabon**	**Senegal**	**Namibia**
GDP per capita (current US$)	1,469	7,508	7,191	1,555	1,605	11,430	1,032	5,786
GDP Growth (annual %)	7.3	2.5	3.7	6.6	7.9	6.1	3.7	5.0
Population Growth (annual %)	3.2	1.2	0.9	2.8	2.2	2.4	2.9	1.9
Life Expectancy at Birth (years)(1)	56	55	47	52	61	63	63	63
Primary School Enrolment % net)(2)(3)	95	85	87	58	82	-	76	85
Infant Mortality Rate (per 1,000 live births)	56	33	41	78	49	42	45	28

Source: The World Bank (World Databank).

(1) Data presented as of 2011.

(2) Data presented as of 2012 for Ghana; 2011 for Zambia, Senegal and Namibia; 2010 for Nigeria; and 2009 for South Africa and Botswana.

(3) The "net" school enrolment rate is the ratio of children of official age based on the International Standard Classification of Education 1997 who are enrolled in school to the population of the corresponding official school age.

Education

According to the World Bank, as of 2010 the literacy rate in Zambia for people over 15 years of age was 71 per cent.. Between the ages of 15 and 24, the literacy rate was 67 per cent. for women and 82 per cent. for men, respectively. The gross enrolment rate in primary education was 117 per cent. in 2011 (the margin over 100 per cent. reflecting a large number of students repeating education levels). There is no compulsory education in Zambia, although the Government has indicated its intention to introduce compulsory education up to Grade 12.

In 2013, a total of 8,801 schools offered primary education (Grades 1-7) signifying an increase of 5.3 per cent. compared to 8,359 schools reported in 2012. At the secondary school education (Grades 7-12) level, the number of schools increased by 3.9 per cent. to 690 from 664 in 2012. This increase was attributed to the infrastructure development programme the Government had been implementing in the sector and the upgrading of some primary schools to secondary school level.

According to the Ministry of Education, Science, Vocational Training and Early Education, the number of pupils enrolled in primary school level fell by 1.9 per cent. from 3,135, 442 in 2012 to 3,075,161 in 2013 and 49.9 per cent. of these pupils were female. Enrolments at secondary school level (Grade 8-12) increased marginally by 0.1 per cent. to 743,955 from 743,175in 2012. The enrolment of girls at this level stood at 348,007 or 46.8 per cent. of the total number of students. The lower female participation was mainly due to early marriages, pregnancies, and social perceptions that discriminate against the girl child.

The Gender Parity Index (GPI) at primary school level stood at 0.999 indicating that for every 1000 boys enrolled at primary school level in 2013, there were 999 girls enrolled. This implies that the country is near to attaining gender equality at the primary education level. Similarly, the GPI at secondary school level stood at 0.871 implying that there were 871 females for every 1000 males enrolled.

The completion rate for primary school in 2011 increased to 95.0 per cent. from 91.0 per cent. in 2010. The increase was attributed to the free basic education policy, continuing government efforts to raise awareness of the importance of education and the expansion of post primary school education facilities. The completion rate for junior secondary school increased marginally from 52.7 per cent. in 2010 to 53.0 per cent. in 2011. The completion rate at senior secondary school increased from 22.0 per cent. in 2010 to 32.0 per cent. in 2011. However, these rates continued to be unsatisfactory to the Government and were largely explained by high dropout rates caused by early marriages, pregnancies, children being orphaned and financial constraints.

There are 12 principal universities in Zambia: the University of Zambia, Zambia Open University, Lusaka Apex Medical University, the University of Lusaka and Cavendish University, each located in Lusaka; Copperstone University and The Copperbelt University, each located in Kitwe; Rusangu University located near Monze; Northrise University located in Ndola; Mulungushi University and Nkrumah University located in Kabwe; and the Zambia Catholic University located in Kalulushi.

The total number of registered universities in 2013 increased to 29 from 23 in 2012, out of which 3 were public universities. Student enrolment in the three largest public universities (University of Zambia, Copperbelt University and Mulungushi University) increased by 2.8 per cent. in 2013 to 22,399 from 21,794 in 2012. In terms of gender disaggregation, 40.6per cent. of the total enrolments were female.

Health

Between 2001 and 2012, there were positive developments in the health sector, including the reduction of the under-five mortality rate from 168 to 83 deaths per 1000 live births. According to the UNAIDS Global Report 2013, Zambia was one of 26 countries which saw HIV infections decline by more than 50% between 2001 and 2012. Research published by UNAIDS reveals that as of 2011 there were approximately 970,000 people living with HIV in Zambia and the prevalence rate of HIV among its population of adults aged between 15 and 49 years old was 12.5 per cent. See "*Risk Factors– Failure to lower Zambia's disease burden, in particular HIV/AIDS, could adversely affect Zambia's economy*".

During 2010, over 75 per cent. of the incidences of diseases were attributable to HIV/AIDS/tuberculosis, diarrhoea, childhood diseases, malaria, respiratory infections, maternal conditions and neonatal deaths. The number of patients on Anti-Retroviral Therapy (ART) increased by approximately 4 per cent. from 480,925 in 2012 to close to 500,000 in 2013. The Prevention of Mother to Child Transmission (PMTCT) programme has greatly contributed towards the reduction in the prevalence of HIV among newly born infants and children in Zambia. However, whilst the number of positive pregnant women in need of ART increased from 28,159 in 2012 to 90,458, the total number of mothers needing PMTCT decreased by 7.4 per cent. to 90,458 from 97,664 in 2012.

The major challenges faced by the health system in Zambia are poor infrastructure (especially in rural areas), inadequate funding for drugs and medical supplies, weak logistic supply systems, poor working conditions and a shortage of skilled health workers.

Both incidence rates and deaths attributable to the top ten diseases found in Zambia decreased in 2012 except for respiratory infection (both pneumonia and non-pneumonia), muscle skeletal traumas and skin infections. Total deaths attributed to the top ten diseases were 3,674, a decline of 30.0 per cent. from 5,226 in 2010. Malaria continued to be the leading cause of death and illness. In addition, tuberculosis is a major health problem in Zambia. According to the Ministry of Health, approximately 50,000 new tuberculosis patients are diagnosed annually. However, most maternal health and family planning indicators have improved.

According to the World Bank, life expectancy in Zambia as of 2011 was 56 years. According to the 2013 United Nations Zambia Human Development Report, Zambia's Human Development Index ranking was 0.466 (above the average of 0.475 for other Sub-Saharan African countries) and its mean years of schooling in 2010 was 6.7 compared to the average of 4.5 for other Sub-Saharan African countries.

The incidence of malaria increased from 337.5 per 1,000 in 2012 to 358.5 per 1,000 in 2013, and the disease remained the leading cause of morbidity and mortality in Zambia. Furthermore, the total diagnoses of malaria (including diseases attributable to malaria) increased to 5,222,099 cases in 2013 from 4,865,995 cases in 2012.However, the number of in-patient deaths fell by 57.9 per cent. to 1,358 in 2013 from 3,233 in 2012.

Respiratory infections (both pneumonia and non-pneumonia) were the second leading cause of death and the leading case of illness, causing 1,255 inpatient deaths in 2013. Pneumonia caused 964 deaths while the remaining 291 deaths were due to non-pneumonia infections. In terms of incidence rate, non-pneumonia infections were at 358.8 per 1,000 population compared to 327.7 per 1,000 population in 2012. This was an increase of 9.5 per cent. for non-pneumonia cases.

According to the World Bank, as of 2010 the maternal mortality rate (the "**MMR**") was 440 per 100,000 births. Although there have been recorded reductions in the MMR in Zambia, it still remains very high when compared to other countries. The challenges include acute shortages of skilled staff, few health facilities especially in rural areas, weak referral and communication systems, and high malaria and anaemia cases.

Preliminary data indicates that antenatal coverage decreased in 2013 by 18.8 per cent. to 79.7 per cent. from 98.5 per cent. in 2012, whilst average antenatal visits increased marginally by 0.03 per cent. Deliveries by institutional, skilled personnel and trained traditional birth attendants declined by 2.9 per cent., 9.4 per cent. and 2 per cent., respectively.

In terms of other maternal health and family planning indicators, preliminary data indicates there was a deterioration in child and maternal health indicators. Fully immunised coverage of children under the age of one year declined to 80 per cent. from 99 per cent. in 2012.

Millennium Development Goals

The MDGs represent a global partnership resulting from the Millennium Declaration at the UN's Millennium Summit of 2000. The MDGs are a set of eight interdependent goals aimed at reducing poverty and improving the quality of life, particularly of the rural poor. Zambia strives to achieve the MDGs in concert with its own policy strategy, Vision 2030, which is implemented through the country's National Development Plans. See "*The Economy–Vision 2030*".

The MDGs are:

- MDG 1 - eradicating extreme poverty and hunger;
- MDG 2 - achieving universal primary education;

- MDG 3 - promoting gender equality and empowering women;
- MDG 4 - reducing child mortality rates;
- MDG 5 - improving maternal health;
- MDG 6 - combating HIV/AIDS, malaria, and other diseases;
- MDG 7 - ensuring environmental sustainability; and
- MDG 8 - developing a global partnership for development.

The most recent report on Zambia's implementation of the MDGs was published in 2013 by the UN Development Programme.

According to this report, extreme poverty (MDG 1) has been reduced from 58 per cent. in 1991 to 42.3 per cent. in 2010. While this a marked improvement, Zambia is unlikely to achieve its goal of 29 per cent. by 2015. Primary education enrolment (MDG 2) has increased from 80 per cent. in 1990 to 93.7 per cent. in 2010, due to a number of factors including spending in primary education infrastructure and the provision of free education. The proportion of pupils reaching Grade 6 increased from 64 per cent. in 1990 to 90.9 per cent. in 2010, although concerns remain over the quality of education and secondary school completion rates.

According to the UNDP report, gender equality (MDG 3) is on track to meet its goal in primary education and literacy amongst 15-24 year olds but accelerated intervention is required if gender parity is to be achieved in secondary and tertiary education. Child mortalities (MDG 4) declined by approximately 30 per cent. since 1992, but Zambia is focussed on further reducing this rate.

The target maternal mortality rate is 162.3 deaths per 100,000 live births, while the rate in 2010 was 440 deaths per 100,000 live births. Significant gains have been made in HIV/AIDS and malaria prevention (MDG 6), with 14.3 per cent. of the population suffering from HIV.

Finally, the report indicates that land covered in forest reduced from 59.8 per cent. in 1990 to 49.9 per cent. in 2010 and that this is a concern to the environmental sustainability targets (MDG 7). The proportion of the population with access to improved sanitation facilities rose from 26 per cent. in 1991 to 67.3 per cent. in 2010. Improvements have been made with regards to MDG 8 in that Zambia has significantly improved its macroeconomic position since the 1990s and in doing so has qualified for debt relief and acquired finance on the international capital markets. Furthermore, Zambia's external trade has grown extensively since the early 1990s.

Political System

The first constitution of Zambia dates back to the Federation (Constitution) Order in Council of 1953, which created the Federation of Rhodesia and Nyasaland and, among other things, defined the powers of the Federal government and those of territorial governments. This was followed by the 1962 constitution, which was mainly designed by the Zambian Colonial Administration to accommodate the participation of both the white settlers and the indigenous Africans in Zambia's Legislative Council. The Federation was dissolved in 1963, after Nyasaland was allowed to secede. The 1964 independence constitution came into being through the Zambia Independence Order, 1964 and aimed to end colonial rule and establish Zambia as an independent state with equal rights afforded to all citizens.

The constitution promulgated on 25 August 1973 replaced the independence constitution of 1964. The new constitution and the national elections that followed in December 1973 resulted in a "one-party participatory democracy." The 1973 constitution provided for a president and a unicameral National Assembly. National policy was formulated by the Central Committee of UNIP, the sole legal party in Zambia. The cabinet executed the central committee's policy. In accordance with the intention to formalise UNIP supremacy in the new system, the constitution stipulated that the sole candidate in elections for the office of president be the same person selected as president of UNIP at the party's general conference.

In December 1990, President Kaunda signed legislation ending UNIP's monopoly on power. Zambia enacted a new Constitution in August 1991, which enlarged the National Assembly from 136 members to a maximum of 158 members, introduced a limit of two five-year terms on the presidency, established an electoral commission, and introduced a multi-party democracy by allowing for more than one presidential candidate who no longer had to be a member of UNIP.

On 31 October 1991, Zambia held elections under the multi-party Constitution and the MMD Party came to power. Following the Mvunga Constitution Review Commission, the Constitution was amended again in 1996 to require presidential candidates to be domiciled in Zambia for 20 years prior to an election and to require that both parents of a candidate be Zambian-born. The 1996 amendment to the Constitution was considered to lack popular legitimacy, as it did not take into account most of the submissions made by the people. Contending political parties in the 2001 elections pledged immediate review of the Constitution after the elections. The MMD government initiated another review of the Constitution in 2003, under the Mung'omba Constitution Review Commission. Far reaching recommendations were made, including the strengthening of the Zambian Bill of Rights and the inclusion of a range of new rights.

Since coming to power in September 2011, President Sata has appointed a technical committee to draft a new constitution based on the submissions of four constitutional review commissions. In April 2012, the first draft of the new constitution was released. Key proposals include changing the electoral process for electing a president (any new president elected will need to command a majority of the vote (50 per cent. plus 1) to achieve office instead of the existing first-past-the-post system) and adding specific social and economic rights, such as the right to healthcare and education, to Zambia's Bill of Rights, and devolution of power from central government to the provinces. The current draft of the new constitution also explicitly provides for the independence of the Bank of Zambia with respect to monetary policy and banking and financial regulation. The Government expects the Technical Committee to release the draft constitution this year. See "*Risk Factors- Certain Government policies may adversely impact economic growth*".

Political Parties

Zambia has a multi-party political system with a number of political parties which include PF, MMD, UPND and UNIP. Zambia held its most recent presidential and parliamentary elections in September 2011 with the next presidential and parliamentary elections scheduled for 2016. UNIP was founded in October 1959 and was in power from 1964 to 1991 with Kenneth Kaunda as president. The UNIP Party was dominated by the founding president Kaunda and no longer has representation in Parliament.

The MMD was established in July 1991 in opposition to the leading UNIP Party to bring back the multi-party system of government. The MMD was the dominant party until the PF assumed office. In June 2012, a Zambian High Court ruling dismissed an attempt by the Zambian Registrar of Societies to have the MMD de-registered for unpaid fees going back to 1991. The Government has appealed the High Court's decision and the allegations will now be considered by the Supreme Court. For further information, see "*General Information–Litigation and Arbitration Proceedings*".

The PF was established in 2001 in opposition to the MMD. Michael Sata, the leader of the PF party, won the presidency with 43.3 per cent. of the vote, in the presidential, parliamentary and local government elections held on 20 September 2011. Michael Sata's victory ended two decades of rule from 1991 until September 2011 by the MMD.

The UPND was established in 1998 and campaigned on a number of social issues, such as free health and educational services and was the principal opposition party to the MMD from 1998 to 2000.

Executive Branch

The President

Zambia's president (the "**President**") is the head of state, head of Government, and commander in chief of the armed forces. The President is also a Member of Parliament. The executive power of Zambia is ultimately vested in the President and is exercised through him or through officers subordinate to him. The President is elected by secret ballot by universal adult suffrage according to the first-past-the-post system. Candidates for the presidency must be Zambian citizens, have both parents of Zambian birth or descent, have attained 35 years of age, have been domiciled in Zambia for at least 20 years and be eligible for election as a member of the National Assembly. The President is elected for a period of five years and is limited to two five-year terms in office. Under the Constitution, the President has the power to dissolve the National Assembly, negotiate and sign international agreements, establish and dissolve government ministries and departments, call elections and appoint the vice-president from amongst the members of the National Assembly.

The Government

The President is head of Government and appoints ministers from the members of the National Assembly. The Cabinet consists of the President, the vice-president and the ministers. The Cabinet and the deputy ministers are accountable to the National Assembly.

Ministers serve as political heads of ministries, such as the Ministry of Finance, Ministry of Local Government and Housing, the Ministry of Health, and the Ministry of Education. Subordinate to the ministers are the politically appointed deputy ministers and civil service-appointed permanent secretaries, who are the top-ranking administrative leaders and are assisted by directors of the various departments.

Legislative Branch

Zambia is a unitary republican state. The first meeting of the Northern Rhodesia parliament took place on 23 May 1924 in Livingstone, the first capital of Northern Rhodesia. The Zambian parliament (the "**Parliament**") is one of the oldest continuously functioning legislatures in the Southern African Sub-region.

Under the Constitution of 1991 as amended in 1996, Parliament consists of the President and the National Assembly. The National Assembly is the legislative branch of the Government and carries out a wide range of important public responsibilities, including passing Acts of Parliament, approving proposals for taxation and public expenditure, and reviewing and scrutinising the work of the Government.

The National Assembly is comprised of 160 members, of which there are 150 directly elected members (one from each of the parliamentary constituencies), up to eight presidentially-appointed members, the Speaker of the National Assembly and the President of the Republic. Directly elected Members of Parliament stand for elections every five years in their constituencies. To be eligible for election to the National Assembly, members must be citizens of Zambia and have attained 21 years of age.

The legislative power of Parliament is exercised by the National Assembly passing bills to which the President then gives or withholds his assent. Bills must be debated three times before the President gives his assent. To pass a law, the bill must be supported on second and third readings by the votes of not less than two thirds of all members of the National Assembly and the text of the bill must be published in the Zambian Gazette. A law made by Parliament only comes into force once it has been published in the Zambian Gazette. If the President refuses to give his assent, he may resubmit the bill with suggested amendments for consideration by the National Assembly. Regardless of whether or not the National Assembly accepts the proposed amendments, if the bill is passed by at least two-thirds of the National Assembly, the President must give his assent unless the President orders general elections and dissolves the National Assembly.

Members of Parliament are elected for a five-year term. Every person aged 18 years of age and above and permanently resident in Zambia is entitled to vote.

Judicial Branch

The judicial system in Zambia is divided into the Supreme Court, the High Court, the Industrial Relations Court, the Subordinate Courts, the Local Courts and such lower courts as may be prescribed by an Act of Parliament. The judiciary is autonomous and subject only to the Constitution and Zambian law.

The Supreme Court is the final court of appeal and the highest court of Zambia. The Supreme Court is composed of the Chief Justice, the Deputy Chief Justice and nine Supreme Court judges and must have an uneven number of judges when determining a matter. The Chief Justice and Deputy Chief Justice and Supreme Court judges are appointed by the President, subject to ratification by the National Assembly.

The High Court is a superior court of record and has unlimited and original jurisdiction to hear and determine civil and criminal proceedings. The Chief Justice is an *ex officio* judge of the High Court and the other judges are lower judges, who are appointed by the President on the advice of the Judicial Service Commission, subject to ratification by the National Assembly.

All courts in Zambia other than the Industrial Relations Court have (to the extent specified by law) both criminal and civil jurisdiction. The Industrial Relations Court was established to deal with labour matters and its jurisdiction is concurrent with that of the High Court. The Chairman and Deputy Chairman of the Industrial Relations Court are appointed by the President on the advice of the Judicial Services Commission.

In addition to the Courts, there are quasi-judicial bodies, such as the Court-Martial and the Lands Tribunal, that administer specific laws subject to powers of review and appellate jurisdiction of specified courts. A judge of the Supreme Court, High Court or Chairman or Deputy of the Industrial Relations Court may only be removed from office if unable to perform the functions of office. To remove a judge, the President must appoint a tribunal which will investigate the matter and report to and advise the President.

In May 2012, President Sata suspended a Supreme Court judge and two High Court judges on the grounds of misconduct and conspiracy to subvert the course of justice, and set up a tribunal headed by a Malawian High Court judge to investigate the three judges. The judges in question applied for judicial review which was granted and acted as a stay on the President's decision. The case was appealed to the Supreme Court, which, in a majority, held that the President had acted within his constitutional powers. In September 2013, the President set up two additional tribunals to investigate the two High Court judges. In June 2013, the Supreme Court judge Philip Musonda resigned and his resignation was accepted by the Chief Justice. The cases against the High Court judges are on-going and could affect the perception of the judiciary's independence should the judges be perceived to have not received a fair hearing.

Local Authorities

Zambia is divided into ten provinces, each administered by a deputy minister, appointed by the President, who essentially performs the duties of a governor. Of the ten provinces, two are predominantly urban:Lusaka and Copperbelt provinces. The remaining provinces – Central, Eastern, Northern, Muchinga, Luapula, North-Western, Western and Southern – are predominantly rural. The provinces are sub-divided into constituencies and there are currently 150 constituencies in total. Each province must have at least ten constituencies. The boundaries of the constituencies may be reviewed by the National Assembly to reflect changes in the distribution of the population.

Legal Framework

The sources of law in Zambia are the Constitution; Zambian statutes and delegated legislation; English statutes extended to Zambia by legislative enactments; English common law and doctrines of equity; Zambian customary law; and public international law that has been integrated into domestic law.

The Constitution is the primary source of law to which all the other sources are subordinate. The Constitution vests legislative power in Parliament. Zambian statutes are passed by Parliament and known as Acts of Parliament. Delegated legislation is made by the Executive or local authorities by virtue of powers conferred upon them by an enabling statute. The application of certain British statutes, common law and doctrines of equity is by virtue of the British Acts Extension Act, Cap. 10 and the English Law (Extent of Application) Act, Cap. 11, of the Laws of Zambia.

Zambian courts are bound to follow precedents established by prior decisions. However, the Zambian Supreme Court has ruled that it may not be bound by its own decisions and may depart from its previous decisions *provided that* there are cogent legal justifications for doing so.

Zambian customary law is founded on the widespread use of customs and practices of a community which, over time, gain acceptability and the force of law. The customary law of Zambia is complex and it varies among ethnic groups and tribes.

Public international law applicable to Zambia is the law of the international community or the body of customary or treaty rules accepted as legally binding by the country in its relations with other States. Public international law cannot be enforced in Zambia unless Parliament enacts relevant enabling legislation.

Membership of International Organisations

Zambia is a member of a large number of regional and international organisations, including the Non-Aligned Movement, the Southern African Development Community (the "**SADC**"), the Common Market for Eastern and Southern Africa (the "**COMESA**"), the African Union (the "**AU**"), the International Monetary Fund, the African Development Bank (the "**AfDB**"), the World Bank, the United Nations (the "**UN**"), World Trade Organisation (the "**WTO**") and the International Atomic Energy Agency (the "**IAEA**").

Zambia is a signatory to the Multilateral Investment Guarantee Agency (the "**MIGA**") of the World Bank Group, which promotes foreign direct investment ("**FDI**") to enhance economic growth and reduce poverty.

Southern African Development Community

Zambia is a member of the SADC, an organisation consisting of 15 Southern African states. The SADC succeeded the Southern African Development Coordination Conference (SADCC), which was formed in Lusaka on 1 April 1980 when the Lusaka declaration (Southern Africa: Towards Economic Liberation) was adopted. The heads of state and governments of the original member states signed the SADC Treaty and Declaration in Windhoek in August 1992. The organisation focuses on promoting sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration amongst the member states, good governance, and durable peace and security. The development framework for the SADC is provided by the Regional Indicative Strategic Development Plan (RISDP), which was adopted in March 2001 and re-affirms the commitment of the SADC member states to good political, economic and corporate governance, and the Strategic Indicative Plan for the Organ (SIPO) which provides member states with a programme of long-term economic and social policies.

SADC initiatives have covered and addressed a broad range of economic activities affecting Zambia. The Protocol on Trade established the foundations for a free trade area between the 15 states via the reduction of major tariffs, to which Zambia has adhered as recognised in a January 2011 SADC statement that Zambia is in full compliance with its required tariff abolition schemes. SADC industrial policies focus on (i) increasing the breadth and depth of the region's industrial base and (ii) improving extraction technology used in the mining industry, which is of key importance to the economies of Zambia and several other SADC states.

Other SADC social initiatives particularly benefiting Zambia include the Trans-Zambezi Malaria Initiative involving Angola, Botswana, Namibia and Zimbabwe for the eradication of malaria along the border region of these states.

Common Market for Eastern and Southern Africa

Zambia is a member of the COMESA, which is headquartered in Lusaka. The COMESA was established in December 1994 to replace the Preferential Trade Area (PTA) and with the objective of creating a large economic and trading unit to achieve sustainable economic and social progress in all member states through increased co-operation and integration in all fields of development. In October 2000, the Free Trade Area was established by Zambia and eight other member states, and this eliminated tariffs on COMESA originating products.

The Government believes the further integration of Zambia into COMESA and increased trade with other COMESA member states will render the Zambian economy more competitive through the simplification and harmonisation of customs procedures, region-wide infrastructure development, and improvements in and harmonisation of information and communication technology systems. The Government believes these programmes will significantly reduce the cost of doing business and enhance productivity by reducing trade costs and non-tariff barriers that restrict trade, and that Zambia's current liberal trade regime puts it in a strong position to capitalise on the expected growth in trade flows from these initiatives.

Zambia is currently a member of both the COMESA free trade area and the SADC free trade area, enjoying duty free access into regional markets to the north and south of the country. While each of the COMESA and the SADC continue the process of integration towards custom unions, Zambia recognises that it cannot belong to two customs unions and is actively participating in negotiations for the formation of a Tripartite free trade area and customs union which will include COMESA, SADC and the East African Community (EAC).

UN, World Bank, the IMF and WTO

Zambia has been a member of the UN since 1965 and has been a member of the International Monetary Fund since September 1965. See "*Public Debt-Relationships with International Financial Institutions*" for information on Zambia's relationships with the Word Bank and the IMF. In addition, Zambia joined the WTO in January 1995, having been a member of its predecessor, GAAT, since February 1982.

African Union and New Partnership for Africa's Development

Zambia is one of 53 members of the AU, the successor to the Organisation of African Unity. The AU is modelled on the European Union and has had a Parliament (known as the Pan African Parliament) since March 2004. The AU's stated objective is to establish a central bank by 2028, a single currency by 2023, a court of justice (currently at protocol stage) and a common defence policy. It also aims to implement the New Partnership for Africa's Development (NEPAD), a vision and strategic framework designed to address issues such as escalating poverty levels and underdevelopment in Africa. Its day to day affairs are run by the AU Commission, which is headed by Dr. Nkosazana Dlamini Zuma who succeeded Jean Ping in July 2012, a former Minister of Foreign Affairs of Gabon. The 2013 budget proposed for the AU was US$278 million financed by member contributions and assistance from development partners. However, few member states actually pay their allocated contributions, so the AU's actions remain limited and it is reliant on donor support. In addition, many members are reluctant to make the necessary concessions regarding their sovereignty. The AU is however prepared to sanction military interventions, which it does through its Peace and Security

Council. The AU sent troops on peace keeping missions to Sudan in the Darfur region in 2004, to Somalia in 2007 and to Côte d'Ivoire in 2011.

African, Caribbean and Pacific Group of States

Zambia is a member of the African, Caribbean and Pacific Group of States (the "**ACP**"), an organisation created in 1975. It is composed of African, Caribbean and Pacific state signatories to the Georgetown Agreement or the Partnership Agreement. The ACP was originally created with the aim of fostering cooperation between its members and the European Community. The ACP has evolved to also cover agreements with the European Community in the areas of trade, economics, politics and culture.

Commonwealth

Zambia has been a member of the Commonwealth network since becoming an independent country in 1964. The Africa Centre of the Commonwealth Youth Programme is based in Lusaka. Zambia has been involved in various projects, including the 2003 review of export development policies and strategies for Zambia.

International Atomic Energy Agency

Zambia has been a member of the IAEA since 1969. Set up in 1957, the IAEA is an independent intergovernmental, science and technology-based organisation within the UN framework. It works with its member states and multiple partners worldwide to promote safe, secure and peaceful nuclear technologies. The IAEA further verifies through its inspection system that States comply with their commitments, under the Non-Proliferation Treaty and other non-proliferation agreements, to use nuclear material and facilities only for peaceful purposes.

International Relations

Africa

Zambia has been actively involved in regional UN peacekeeping operations in Mozambique, Rwanda, Angola, Sierra Leone, Sudan, and South Sudan. According to the Office of the United Nations High Commissioner for Refugees (UNHCR), Zambia has a long history of hosting refugees. As at 31 January 2012, there were 46,653 refugees and asylum-seekers residing in Zambia (compared to 56,863 in 2009), mainly from Angola, Burundi and the Democratic Republic of Congo. Although in 2007 up to 1000 refugees a day were entering Zambia from Zimbabwe due to social and political unrest in Zimbabwe as stability in Zimbabwe has improved, this number has since declined to fall below other major origin countries.

Angola

Zambia sponsored Angola peace talks that led to the 1994 Lusaka Protocol which was signed in November 1994 and sought to end the civil war in Angola by demobilising UNITA and integrating members of UNITA into the armed forces and the police force.

Democratic Republic of the Congo

The cease-fire agreement in the Democratic Republic of the Congo was signed in Lusaka in July and August 1999. Zambia's activity in supporting the Congolese peace effort has diminished since the body responsible for implementing the cease fire, the Joint Military Commission, relocated to Kinshasa in September 2001.

Recently, civil unrest has returned to the Democratic Republic of the Congo. Though this has resulted in the creation of displaced persons, most have sought refuge in Rwanda. It is not expected that the current unrest will have any significant impact on Zambia.

Rwanda

Zambia was the first African state to cooperate with the International Tribunal investigation of the 1994 genocide in Rwanda.

Rest of the World

European Union

Zambia has good relations with the European Union (the "**EU**"). The European Development Fund (the "**EDF**") is the EU's main vehicle for development cooperation in ACP states such as Zambia, focusing on economic growth and the reduction of poverty. The ninth EDF, or Cotonou Agreement, from 2000 to 2007 and the tenth EDF from 2008 to 2013 both focused on improvements in education and human resource development and rural development, with the aim of assisting the Government's effort to reduce poverty as specified in Zambia's Vision 2030 and the 6th National Development Plan. Recently, Zambia and the EU have held talks on future Strategic Partnership and negotiated the 11th EDF pursuant to which the EU pledged EUR484 million support to Zambia between 2014 and 2020.

United States

The US provides economic and technical assistance that is managed by the Department of State, in cooperation with the US Agency for International Development (the "**USAID**"), the President's Emergency Plan for AIDS Relief ("**PEPFAR**") and the World Food Program. The Centres for Disease Control and Prevention, the Department of Treasury, the Department of Defence, the Department of Justice and the Peace Corps are also represented in Lusaka.

PEPFAR is the Government initiative to help those suffering from HIV/AIDS. Since PEPFAR's inception in 2004, Zambia has received over US$1.7 billion to support comprehensive HIV/AIDS prevention, treatment and care. During 2012 this funding allowed 445,159 individuals to receive antiretroviral treatment and provided counselling and testing to 2,375,750 individuals.

Zambia is a beneficiary of the African Growth and Opportunity Act (the "**AGOA**"), a United States Trade Act that enhances US market access for 40 Sub-Saharan African countries. In June 2011, Zambia and the US co-hosted the AGOA Forum in Lusaka.

In December 2008, Zambia was selected for the first time as eligible for a Millennium Challenge Account (the "**MCA**") compact and has since been re-selected. The MCA is a unit formed under the Ministry of Finance and National Planning to co-ordinate the development of an investment programme supported by the Millennium Challenge Corporation (the "**MCC**"). On 10 May 2012, Zambia signed a five year US$354.8 million compact (the "**Compact**") with the MCC focused on rehabilitating and upgrading the core water network, and rehabilitating and expanding sanitation access in the capital city Lusaka.

The Government of Zambia has designated the Millennium Challenge Account-Zambia Limited as the legal entity responsible for the implementation of the Compact on behalf of the Government. Significant progress has been made on the preparatory works for the water supply, sanitation and drainage sub-projects including detailed designs and draft tender documents, as well as updating the Environmental Social Impact Assessments and Resettlement Action Plans. On 15 November 2013, the Compact entered into force, with a pledge of US$355 million made to the Government of Zambia.

In 2010, USAID assistance to Zambia exceeded US$270 million, including over US$144 million for HIV/AIDS programmes utilizing PEPFAR funding, US$15 million to fight malaria through the President's Malaria Initiative, and over US$21 million through the Feed the Future initiative to promote food security.

A country agreement inviting the Peace Corps to work in Zambia was signed by the United States and Zambia on 14 September 1993. Since the first group of volunteers was sworn in on 7 April 1994, nearly 1,435 Peace Corps volunteers have served in Zambia. There are currently 284 volunteers working in Zambia in areas such as education, health, community development, and business.

China

China and Zambia established formal diplomatic relations on 29 October 1964, five days after Zambia's independence. The two countries have strengthened bilateral economic cooperation under the current Government. Friendly political relations between the two countries have also been consolidated.

In February 2010, the former president, Mr. Banda, paid a state visit to China and held bilateral talks with President Hu Jintao and signed a number of mutually beneficial cooperation agreements. As at December 2010, Zambia was China's third largest trading partner in Sub-Saharan Africa and more than 300 Chinese companies operated in Zambia. Chinese investment in Zambia increased from US$500 million in 2006 to nearly US$3.4 billion in 2012. The Zambia-China Economic and Trade Cooperation Zone was established in 2007 and by the end of 2009 it had realised US$780 million in investment and a turnover of US$770 million.

The fifth meeting of the Forum of China and Africa Cooperation (the "**FOCAC**") of which Zambia is a member took place in Beijing in July 2012. The fifth meeting addressed ways of encouraging Chinese businesses to invest and outsource to African states, including Zambia, fostering further investment. It also examined ways of increasing productivity in the manufacturing industries of African states in order to boost competitiveness on the global stage, as China has done successfully with its own secondary industries over recent decades. Although no formal commitment has been made, the Chinese government pledged to provide US$20 billion of credit lines to African countries to assist in the development of infrastructure, agriculture, manufacturing and small and medium enterprises. Additional areas identified for co-operation include finance and banking, information and communications technology and tourism.

In April 2013, President Sata made a state visit to China. Zambia and China signed three memoranda of understanding for purchase contracts between Zambian and Chinese companies amounting to $785 million.

Armed Forces

The Zambian Defence Force (the "**ZDF**") consists of the army, the air force, and Zambian National Service (the "**ZNS**"). The ZNS, while operating under the Ministry of Defence, is responsible primarily for public works projects.

The role of the ZDF is to preserve and defend the sovereignty and territorial integrity of Zambia, to co-operate with the civilian authority in emergency situations and in cases of natural disasters, to foster harmony and understanding between the ZDF and civilians and engage in productive activities for the development of Zambia.

The ZDF has contributed to AU and UN peacekeeping operations in Africa and in 2005 became a partner in the African Contingency Operations and Training Assistance ("**ACOTA**") programme. The first iteration of ACOTA peacekeeper training took place in 2007.

Country Ratings

The Republic of Zambia has been assigned sovereign credit ratings of B+ (negative) by Standard and Poor's and B (stable outlook) by Fitch. In October 2013, Fitch downgraded Zambia's long term foreign currency rating from B+ to B, and Standard & Poor's changed Zambia's outlook from stable to negative due to what the rating agencies perceive as a shift in the government's fiscal policy. In March 2014 Fitch affirmed Zambia's long term foreign currency rating at B (stable outlook) and in April 2014 Standard & Poor's affirmed Zambia's long term foreign currency rating at B+ (negative). As at the date hereof there has been no change to Standard and Poor's and Fitch's outlook on Zambia. See *"Risk Factors– Certain Government policies may adversely impact economic growth"*.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch is established in the European Union and has applied for registration under regulation (EC) no 1060/2009 of the European Parliament and of the European Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") and its application has been approved. Standard & Poor's is not established in the European Union but Standard & Poor's Credit Market Services Europe Limited (which is established in the European Union and has applied for registration under the CRA Regulation, and its application has been approved) plans to endorse the ratings issued by it.

THE ECONOMY

Overview

In 2012, Zambia was Africa's largest and the world's seventh largest copper producer according to the US Geological Survey, and a significant portion of Zambia's GDP and the majority of its foreign exchange earnings are derived from the production and export of copper and copper by-products. See "*Risk Factors–The Zambian economy is largely dependent on copper production and global market prices for copper*". In addition to the mining sector, Zambia's economy comprises a large agricultural sector which provides the majority of employment, a fast growing construction sector as well as an established tourism industry.

Following a period of relatively weak economic performance in the 1980s and 1990s, Zambia's macroeconomic position has improved significantly in the last decade, with GDP growth at an average of 5 per cent., peaking at 7.6 per cent. in 2010. While growth decreased slightly to 6.8 per cent. in 2011, it continues to be driven by increased output in the mining, construction, and agriculture sectors. In 2012, real GDP growth rose to 7.3 per cent. and was primarily driven by the agriculture, transport and communication as well as energy sectors. In 2013 however, GDP growth decreased to 6.4 (preliminary) per cent. The Government expects Zambia's GDP growth to exceed 7 per cent. in 2014, compared to GDP growth of 5 per cent. predicted by the IMF for Sub-Saharan Africa. See "*Risk Factors - Zambia has experienced high inflation in the past and its macroeconomic stability is subject to successful fiscal and monetary policy*".

The Zambian economy has transformed greatly since 1991 due to fiscal and monetary policy reforms as well as structural reforms, in particular the privatisation of Government-owned copper mines in the late 1990s and early 2000s. As a result of investment in the industry and higher copper prices, copper output has increased steadily since 2004. In addition, Zambia has improved its fiscal discipline in recent years. The fiscal deficit (which averaged almost 14 per cent. of GDP in the 1980s and 6 per cent. in the 1990s) was reduced from 6 per cent. of GDP in 2003 to below 3 per cent. in 2004. Overall, fiscal discipline during this period enabled the Government to bring domestic debt and interest rates down significantly and to qualify for debt relief under the HIPC Initiative and the MDRI, resulting in the cancellation of US$5,781.86 million foreign debt in 2005 and 2006. Paris Club creditors cancelled US$2,271.9 million of Zambia's debt, while non-Paris Club creditors cancelled US$75.36 million and multilateral creditors cancelled US$3,434.6 million. According to preliminary data, in 2013 the fiscal deficit was 6.8 per cent. of GDP and budget expenditures were over 8 per cent. higher than budgeted due to, among other factors, payments for arrears relating to the fuel subsidy, higher than planned expenditures on the strategic food reserve, seed and fertiliser inputs for small scale farmers, as well as higher pay for civil servants. In its 2013 Article IV Consultation Paper, the IMF projected a fiscal deficit of 8.6 per cent. of GDP in 2013. This partly reflects differences in accounting for pensions arrears and the debt of the food reserve agency, as well as higher expenditure forecasts. The Government's fiscal deficit target for 2014 is 6.6 per cent. of GDP.

The biggest challenges for the Government remain the diversification of the economy, maintaining high economic growth, the creation of jobs, the reduction of poverty and inequalities, as well as the introduction of reforms which will reduce the costs of doing business in Zambia, improve the competitiveness of the economy and ensure that the rural economy contributes significantly to overall growth. To that end, in March 2014 the Business Regulatory Bill was passed by the Parliament and is expected to reduce bureaucracy and result in the establishment of the Business Regulatory Authority (BRA) acting as a single business licensing system for business activities in Zambia. Furthermore, in his New Year speech at the end of 2013, the President announced the decision of the Government to establish the Industrial Development Corporation ("**IDC**") which will operate as a tool for modernization and diversification of the economy. The aim of the Government's current economic programme is to increase growth in 2015 while keeping inflation below 5 per cent by the end of 2016. The Government plans to reform the maize marketing and fertilizer support programme to ensure that it targets the neediest farmers, extends support to other crops beyond maize, and ensures greater involvement of the private sector in these areas; as well as promote sectors beyond agriculture such as construction, tourism and manufacturing. The Government also aims to reduce maize purchases by the Food Reserve Agency to that required to maintain food security. To that end, in May 2013 the Government reduced consumer maize subsidies and fertilizer subsidies. Furthermore, in 2013 the Food Reserve Agency's purchase of maize was within the set target of 500,000 metric tonnes, and a bulk of the marketed maize crop was sold to the private sector.

The Government also introduced several statutory instruments in 2012 and 2013 which aimed to improve the monitoring of financial flows between Zambia and the rest of the world. Statutory Instrument 78 of 2012 ("**SI 78**") which came into effect in November 2012 and amended Statutory Instrument 33 of 2012 ("**SI 33**"), prohibits the quoting and pricing of goods and services in foreign currencies. SI 33 requires that the Kwacha is used for the majority of domestic transactions. In July 2013 the Bank of Zambia issued Statutory Instrument 55 ("**SI 55**") in order to monitor balance of payments transactions and ensure that export receipts were channelled through the Zambian banking system. On 21 March 2014, the Minister of Finance announced the revocation of SI 55 and SI 78.

For 2014, the Government has allocated in the budget greater resources to the areas which it deems most need improvement; it has increased budgetary allocations of 28.0 per cent. to economic affairs programmes including agriculture, energy and transport, 25.1 per cent. to general public services, 20.2 per cent. to education, and 9.9 per cent. to health.

Vision 2030

In December 2006, the late President Mwanawasa launched Zambia's Vision 2030, a set of long term policy goals designed to attain desirable socio-economic indicators by 2030. The overriding goal of the Vision 2030 is for Zambia to become a prosperous middle income nation by 2030 and this goal was determined through an extensive and nationwide consultative process.

The key pillars of Vision 2030 include:

- upholding democratic principles;
- positive attitude towards work;
- public private partnerships;
- peaceful coexistence and respect for human rights;
- upholding good traditional and family values; and
- sustainable development.

Some of the major specific objectives of Vision 2030 are to:

- establish an efficient, competitive, sustainable and export-led agriculture sector that assures food security and increased income;
- ensure secure, fair and equitable access and control of land for sustainable socio-economic development;
- become a major tourist destination;
- develop a dynamic and competitive technology-based and export-focused manufacturing sector, with effective entities that add value to the locally abundant natural resources;
- promote the exploration and exploitation of mineral resources in the private sector that contribute to sustainable social economic development;
- establish a developed and maintained socio-economic infrastructure;
- adhere to the principles of good governance;

- maintain population trends commensurate with socio-economic development;
- provide universal access to quality healthcare; and
- provide a clean and safe water supply and sanitation for all.

In January 2011, the Government launched the SNDP (for the years 2011 to 2015) to realise a portion of the objectives of Vision 2030. The SNDP aims to achieve sustained economic growth and poverty reduction by accelerating infrastructure development, economic diversification and rural investment and by enhancing human development. The SNDP focuses on policies, strategies and programmes which stimulate agricultural productivity and the promotion of agribusinesses, improve the provision of basic services such as water and sanitation, health, education and skills development, as well as improve infrastructure and electricity access. In addition, the SNDP addresses issues such as governance, HIV and AIDS, gender, disability, nutrition, environment and disaster risk management. The current Government is revising the SNDP to reflect its priorities, including job creation and addressing poverty and inequality through increased investment in health, education, water and sanitation, and infrastructure developments.

Gross Domestic Product

GDP is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in current prices. Real GDP measures the total value of final production in constant prices of a particular year, thus allowing historical GDP comparisons that exclude the effect of inflation. Real GDP figures presented in this section are based on constant 1994 prices. References to GDP in this Prospectus are to nominal GDP unless indicated otherwise.

Real GDP growth averaged 5.4 per cent. from 2000 through 2010. In 2013, real GDP stood at 6.4 per cent. (preliminary) compared to 7.3 per cent. in 2012, driven by growth in transport, storage and communications, construction, community, social and personal services financial institutions and insurance, manufacturing and mining sectors. A slowdown was recorded in the agriculture sector due to adverse weather conditions and the outbreak of army worms which destroyed crops.

Zambia's nominal GDP per capita was US$998 in 2009, US$1,225 in 2010, US$1,409 in 2011, and US$1,469 in 2012.

Zambia's GDP data is to be rebased on 2010 prices from the 1994 prices used to calculate GDP data included in this Prospectus. The Government aims to complete the rebasing in the first quarter of 2014. Such 2010 prices are currently being determined as part of an economic census. This is likely to result in the mining sector contributing a larger weight to overall GDP due to its larger share of the overall economy in 2010 as compared to 1994 and higher prices for commodities such as copper in recent years. Preliminary data released by the Central Statistical Office indicates that the nominal GDP has been underestimated by approximately 25 per cent. and the metal mining sector's share of nominal GDP in 2010 based on the rebased figures was approximately 10 per cent higher compared to 3.6 per cent. based on the un-rebased figures.

Nominal GDP

The following table sets out certain information about Zambia's nominal GDP by sector for the periods indicated:

	Year ended 31 December					
	2008	2009	2010	2011	2012	2013[1]
	(*Kwacha millions*)					
Primary Sector						
Agriculture, Forestry and Fishing	10,963.8	13,461.4	15,642.3	18,094.8	20,348.5	21,441.4
Agriculture	1,826.4	2,344.3	2,801.4	3,351.7	3,983.8	3,595.0
Forestry	8,531.6	10,528.8	12,265.5	14,151.6	15,744.4	17,198.0
Fishing	505.8	588.2	575.3	591.5	620.3	648.4
Mining and Quarrying	1,998.9	1,682.1	2,837.8	3,144.1	2,757.5	2,716.5
Metal Mining	1,989.8	1,669.3	2,828.1	3,131.9	2,746.1	2,705.5
Other Mining and Quarrying	9.2	12.9	9.6	12.2	11.4	11.0
Total Primary Sector	**12,862.7**	**15,143.5**	**18,480.0**	**21,238.9**	**23,106.0**	**24,157.9**
Secondary Sector						
Manufacturing	5,149.6	6,016.9	6,770.8	7,790.4	8,866.6	9,843.7
Food, Beverages and Tobacco	3,218.4	3,859.0	4,358.0	4,996.3	5,646.5	6,259.2
Textile, and Leather Industries	506.7	445.2	214.5	106.7	117.5	149.9
Wood and Wood Products	509.2	621.6	791.9	934.7	1,045.4	1,080.0
Paper and Paper products	337.3	426.4	587.7	774.6	948.4	1,076.0
Chemicals, Rubber and Plastic Products	432.6	519.1	613.2	703.2	822.2	983.9
Non-Metallic Mineral Products	70.8	95.1	123.7	165.3	189.8	210.8
Basic Metal Products	9.4	6.2	8.9	10.4	10.6	10.5
Fabricated Metal Products	65.2	44.2	72.8	99.2	86.2	73.3
Electricity, Gas and Water	1,512.4	1,779.8	2,201.8	2,910.4	3,187.2	3,655.2
Construction	8,811.4	11,819.5	15,703.6	20,815.0	24,714.5	29,693.8
Total Secondary Sector	**15,473.4**	**19,616.2**	**24,676.1**	**31,515.8**	**36,768.3**	**43,192.8**
Tertiary Sector						
Wholesale and Retail Trade	8,539.1	9,908.2	11,204.2	13,085.3	14,499.8	16,320.3
Restaurants, Bars and Hotels	1,610.8	1,545.2	1,838.6	2,143.8	2,176.6	2,359.7
Transport, Storage and Communications	2,248.9	2,355.2	3,076.5	3,578.4	4,052.1	4,728.5
Rail Transport	79.0	66.2	105.9	122.6	87.0	115.6
Road Transport	891.8	1,052.6	1,242.6	1,467.9	1,734.5	2,050.2
Air Transport	573.4	453.6	611.0	737.2	884.9	1,109.2
Communications	704.8	782.7	1,117.0	1,250.6	1,345.6	1,453.5
Financial Intermediaries and Insurance	4,373.6	5,534.6	6,745.1	7,568.8	8,998.7	10,864.0
Real Estate and Business services	3,138.4	3,671.6	4,306.1	5,327.7	5,820.8	6,502.3
Community, Social and Personal Services	5,465.5	6,649.0	8,148.6	9,696.1	11,738.7	14,159.6
Public Administration and Defence	1,446.1	1,647.3	1,732.7	2,082.4	2,663.0	3,472.0
Education	3,092.8	3,890.8	4,694.2	5,542.0	6,516.3	7,661.9
Health	576.9	690.9	1,246.2	1,522.9	1,947.5	2,321.3
Recreation, Religious, Culture	114.7	147.4	167.1	188.6	212.9	255.3
Personal Services	235.0	272.7	308.3	360.1	399.0	449.1
Total Tertiary Sector	**25,376.4**	**29,663.9**	**35,319.1**	**41,400.0**	**47,286.7**	**54,934.3**
Less: FISIM	(2,513.4)	(2,922.4)	(3,876.3)	(4,349.6)	(5,171.4)	(6,243.3)
Total Gross Value Added	**51,199.1**	**61,501.2**	**74,599.0**	**89,805.1**	**101,989.7**	**116,041.7**
Taxes Less Subsidies on Products	3,640.4	3,114.3	3,067.6	3,527.5	4,025.5	4,738.5
Total GDP at Market Prices	**54,839.4**	**64,615.6**	**77,666.6**	**93,332.5**	**106,015.2**	**120,780.2**

Source: Central Statistical Office.

(1) Preliminary data subject to revision.

Real GDP

The following table sets out certain information about Zambia's real GDP by sector for the periods indicated (based on constant 1994 prices):

	Year ended 31 December					
	2008	2009	2010	2011	2012	2013[1]
			(*Kwacha millions*)			
Primary Sector						
Agriculture, Forestry and Fishing	472.0	506.1	539.5	582.8	622.6	576.4
Agriculture	210.5	236.6	268.8	306.5	340.5	288.0
Forestry	180.0	186.7	193.6	200.8	208.2	215.9
Fishing	81.4	82.8	77.0	75.5	74.0	72.5
Mining and Quarrying[2]	308.7	371.3	427.7	405.6	394.6	417.7
Metal Mining	306.3	366.6	425.3	403.0	391.9	414.9
Other Mining and Quarrying	2.3	4.7	2.4	2.6	2.7	2.8
Total Primary Sector	**780.6**	**877.4**	**967.2**	**988.4**	**1,017.3**	**994.2**
Secondary Sector						
Manufacturing	371.7	380.1	396.0	427.7	458.4	479.2
Food, Beverages and Tobacco	248.4	260.7	280.0	305.9	327.6	342.2
Textile and Leather Industries	29.7	23.7	10.3	4.6	4.8	5.7
Wood and Wood Products	30.8	31.6	35.8	38.0	39.6	38.9
Paper and Paper Products	12.8	13.6	16.7	19.7	22.5	24.3
Chemicals, Rubber and Plastic products	33.9	33.8	34.7	37.2	40.9	45.5
Non-Metallic Mineral Products	7.0	7.8	8.8	11.0	11.9	12.3
Basic Metal Products	1.7	1.6	1.6	1.5	1.8	1.9
Fabricated Metal Products	7.5	7.3	8.2	9.6	9.2	8.5
Electricity, Gas and Water	89.3	95.4	102.4	110.8	115.4	122.2
Construction	428.5	469.4	507.4	552.8	627.9	699.5
Total Secondary Sector	**889.6**	**944.9**	**1,005.8**	**1,091.2**	**1,201.7**	**1,300.9**
Tertiary Sector						
Wholesale and Retail Trade	618.5	632.9	659.6	708.9	737.1	775.5
Restaurants, Bars and Hotels	106.8	92.5	101.9	110.0	107.2	109.5
Transport, Storage and Communications	344.2	370.4	425.5	483.8	545.8	613.3
Rail Transport	5.9	4.5	5.1	5.4	3.6	4.4
Road Transport	116.2	131.7	140.0	155.2	166.2	178.0
Air Transport	72.2	55.2	65.8	74.4	82.5	93.4
Communications	149.9	178.9	214.6	248.9	293.6	337.4
Financial Intermediaries and Insurance	276.6	290.9	308.3	323.3	362.1	406.4
Real Estate and Business Services	314.7	323.6	333.2	342.8	355.3	366.3
Community, Social and Personal Services	322.9	350.7	369.4	400.3	437.9	494.1
Public Administration and Defence; Public and Sanitary Services	125.0	125.6	121.7	134.7	149.7	182.5
Education	141.4	163.0	182.2	195.9	211.3	227.9
Health	18.5	20.0	21.4	24.2	29.1	30.7
Recreation, Religious and Culture	21.3	25.1	26.4	27.1	28.8	33.3
Personal Services	16.5	17.1	17.7	18.3	19.0	19.7
Total Tertiary Sector	**1,983.7**	**2,061.0**	**2,197.9**	**2,369.1**	**2,545.4**	**2,765.1**
Less: FISIM	(148.8)	(153.7)	(157.2)	(160.8)	(164.4)	(168.1)
Total Gross Value Added	**3,505.1**	**3,729.6**	**4,013.8**	**4,287.9**	**4,599.9**	**4,892.0**
Taxes Less Subsidies on Products	261.4	278.1	299.3	319.7	343.0	364.8
Total GDP at Market Prices	**3,766.5**	**4,007.7**	**4,313.0**	**4,607.6**	**4,942.9**	**5,256.8**
Real Growth Rates (%)	5.7	6.4	7.6	6.8	7.3	6.4

Source: Central Statistical Office.

(1) Preliminary data subject to revision.

(2) From 2010 to 2011, real mining and quarrying GDP decreased while nominal mining and quarrying GDP increased as a result of the methodology used in translating nominal GDP figures into real GDP figures, which employs deflators (i.e. a price index) for specific items. The deflators used to convert real to nominal mining sector GDP are heavily influenced by changes in copper prices. In 2011 copper prices increased significantly in comparison with 2010 (in excess of 10 per cent.) resulting in a higher deflator applied to nominal mining GDP for the period, which in turn led to an increase in nominal mining sector GDP relative to the decline in real mining GDP. Thus whilst real GDP declined, the nominal GDP figure rose. Zambia expects that the rebasing of GDP to 2010 prices will address such anomalies in real and nominal GDP figures.

Principal Sectors of the Economy

Construction

According to preliminary data, construction accounted for almost 13.4 per cent. of GDP in 2013. The Zambian construction industry comprises both consultancy and contracting in the areas of building, civil engineering (including road works) as well as the manufacturing and supply of certain construction materials. Growth in the construction industry has been significant over the last decade, averaging in excess of 14 per cent. of GDP since 2001, despite a decrease in the level of growth since the beginning of the global economic crisis. The construction industry registered a real growth of 11.4 per cent. in 2013, compared with 13.6 per cent. in 2012. The development in the construction sector was primarily a result of continued strong residential and commercial construction as well as infrastructure development in the roads, energy, and mining sectors. The Government expects the construction sector to remain an important growth area over the medium term premised on continued strong demand from residential, commercial and public infrastructure projects.

Agriculture

According to preliminary data, the agriculture sector represented almost 10.9 per cent. of real GDP in 2013 and according to the 2012 Labour Force Survey, accounted for approximately 70 per cent. of total employment in Zambia (formal and informal). Zambia's agricultural output dropped approximately 7.4 per cent. in 2013 as a result of significantly low crop production, late rains and challenges in fertiliser distribution. Maize (corn) is the principal cash crop as well as the country's staple food. Other important crops include soybean, cotton, sugar, sunflower seeds, wheat, sorghum, pearl millet, cassava, tobacco and various vegetable and fruit crops. Floriculture is a growth sector, and the growth in agricultural non-traditional exports now rivals the growth in mining industry foreign exchange receipts. Zambia has the potential for significantly increasing its agricultural output; currently, only approximately 155,000 hectares or 3 per cent. of agricultural land is under irrigation. In the past, the agriculture sector suffered from low producer prices, difficulties in availability and distribution of credit and inputs, and the shortage of foreign exchange. While there are certain limitations on the foreign ownership of land in Zambia, there are a variety of exemptions, including the exemptions for residents, investors and corporate entities. Promoting the agricultural sector is one of the Government's priorities to diversify the economy and move it away from its over-reliance on its traditional products and exports such as copper and cobalt. Among the non-traditional crops with potential for investments are cotton, coffee, tobacco, sugarcane, pineapples, cashew nuts, cassava and horticultural and floricultural crops. The Government intends to expand agricultural support programmes to cover soya, cotton, sunflower and rice. Furthermore, in order to alleviate delays in input distribution, the Government intends to implement the electronic voucher system in the 2013/2014 farming season. The Government is also seeking to reduce the agriculture sector's dependence on seasonal rains by introducing irrigation systems. In partnership with organisations such as the World Bank, the Government has brought some 600 hectares of land under irrigation in the Southern Province. The target under the Fifth National Development Plan (FNDP) is to bring some 3,000 hectares of land under irrigation. In addition, the Government is developing farm blocks with power and irrigation facilities in the Central and Luapula provinces.

Crops

The area planted for crop cultivation in Zambia has continued to increase over the last decade. The total area planted for all major crops increased from less than 1.5 million hectares in the 1999/2000 season to over 2.2 million hectares in the 2011/2012 season. However, yield rates continued to fluctuate significantly due to the over reliance on rain-fed agriculture by most small and medium scale agricultural households.

In the 2012/2013 season, total maize production declined by 11.2 per cent. to 2,532,800 Mt compared to 2,852,687 Mt in the 2011/2012 season. Cotton production also declined by 48.2 per cent. to 139,583 Mt in the 2012/2013 season from 269,502 Mt in the previous season. Despite the decrease in maize production, the national food balance sheet shows that in 2012/2013 season Zambia produced an overall food surplus of 896,677 Mt compared to 413,064 Mt in 2011/2012 marketing season.

Zambia has also recorded a significant increase in the production of barley in recent years, primarily for the domestic brewing industry. Barley production increased from the 8,878 Mt harvested in the 2010/2011 season to 15,295 Mt in the 2011/2012 season. The total area planted with barley increased by 77.57 per cent. from 1,206 hectares during the 2010/2011 season to 2,142 hectares during the 2011/2012 season.

Livestock

Livestock businesses include beef production, small ruminants, poultry production, pig production, dairy production, production and processing of meat, dairy products and animal feed. Zambeef Products plc, Zambia's largest beef producer and one of the largest agribusinesses in Zambia, is listed on the Lusaka Stock Exchange ("**LuSE**") and the London Alternative Investment Market ("**AIM**"). The company is primarily involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, dairy products, eggs, edible oils, stock feed, flour and bread. However, it also has large row-cropping (principally maize, soya beans and wheat) operations, as well as stores, in-house butcheries and fast food outlets in Zambia, in-house butcheries in Ghana and in-house butcheries and stores in Nigeria.

The livestock sector continued to grow in 2013, due to improved livestock infrastructure, increased artificial insemination, better prevention and control of livestock diseases, and improved breeding methods at livestock breeding centres. Goat production increased by 172 per cent. to 3 million compared to 1.1 million in 2012. Similarly, sheep production increased by 36 per cent. to 816,397 compared to 600,835 in 2012. The cattle population also increased by 9 per cent. to 3,932,269 from 3,603,452 in 2012, and the poultry production increased by 14 per cent. to 112,791,669 from 98,587,625 due to increased stocks and hatching capacity coupled with improvements in the genotype, research and adoption of modern technologies. In line with the increase of animals, the number of slaughters and meat available on the market has also improved. However, the number of pigs slaughtered decreased by 40 per cent. as a result of outbreak of swine fever disease in Lusaka province.

Sugar

Sugar is among Zambia's most important agricultural export commodities. As at September 2012, approximately 55 per cent. of sugar production was exported. The sector was privatised in 1994, and a local subsidiary of Illovo Sugar Ltd of South Africa controls approximately 90 per cent. of all sugar production in Zambia. In 2010, it was estimated that production reached 450,000 Mt. Sugarcane is also grown and processed by other Zambian companies such as Kalungwishi Sugar Estates and Consolidated Sugar (Kafue Estates). There are also various outgrowers in the Kafue area who produce sugar which is processed by Illovo Sugar Estates.

Manufacturing

According to preliminary data, the manufacturing sector represented almost 9.2 per cent. of real GDP in 2013. Zambia's manufacturing sector comprises food, beverages and tobacco; textiles, leather and clothing; wood and wood products; paper and paper products; chemicals, rubber and plastic products; non-metallic mineral products; basic metal products; and fabricated metal products. In addition, a significant amount of copper production is accounted for in manufacturing as a result of Zambia's methodology for recording GDP, which for the mining sector includes only the extractive process and does not account for refining and other processing. See "*Risk Factors–The Zambian economy is largely dependent on copper production and global market prices for copper*". The manufacturing sector experienced average real growth of 10.4 per cent. from 2000 to 2009, driven primarily by the food, beverages and tobacco subsector.

According to the third quarter Index of Industrial Production, growth in the manufacturing sector in 2013 slowed to 4.5 per cent. compared to the 7.2 per cent growth recorded in 2012. The growth was largely driven by the food, beverages and tobacco, and the chemicals, rubbers and plastics subsectors. Positive growth was also observed in the textile, clothing and leather, paper and paper products, non-metallic mineral products, and basic metal industries sub-sectors.

Positive performance was also observed in the energy sector. In 2013, national electricity generation increased by 6.4 per cent. to 13,782,035 megawatt hours ("**Mwh**") from 12,954,051 Mwh in 2012 as a result of improved electricity generation at major hydro power stations. However, demand for electricity continued to surpass supply leading to load shedding of power across the country, particularly at peak times. Electricity consumption in 2013 increased by 5.1 per cent. to 10,845,651 Mwh from 10,317,408 Mwh in 2012. The mining sector continued to consume the largest share of power at 54.7 per cent.

In 2013, the supply of petroleum products continued to be impacted by crude oil prices on the international market and the exposure to exchange rate fluctuations. The importation of oil feedstock decreased by 19 per cent. to 518,013 Mt from 642,683 Mt in 2012. There was also a decrease of supply and consumption of petroleum products, apart from petrol. Domestic prices of petroleum products increased by an average of 25.2 per cent. following the removal of the 5 per cent. import duty on petroleum feedstock and application of the strategic reserves fund cost-line of K0.15/litre for all petroleum products. The pump prices of petrol increased by 21.4 per cent. to K9.91/litre, 21.5 per cent. for diesel to K9.20 litre and 32.6 per cent. for kerosene to K6.83 litre, respectively.

Mining

Following the privatisation of Zambia's copper mines in the 1990s, mining production grew sharply during the 2000s, with substantial new investment and strengthening international prices for much of the decade. Zambia is now recognised as a major producer of copper and cobalt, being ranked as the world's seventh largest producer of copper, and the second largest producer of cobalt according to the US Geological Survey. According to World Bank, in 2014 mining and quarrying are projected to grow at 18.0 per cent. The global economic crisis has resulted in lower prices for commodities, however at current levels prices remain high by historical standards and most mines remain profitable. Global copper prices decreased from 2007 to 2009 with an annual average of US$7,126.75 per Mt in 2007, US$6,938.96 per Mt in 2008 and US$5,158.54 per Mt in 2009. However, since 2009 global copper prices have increased to US$7,534.78 per Mt in 2010, US$8,828.19 per Mt in 2011 and decreased to US$7,073.82 in 2013. While mining is Zambia's biggest export earner, its direct contribution to real GDP was 7.8 per cent. in 2013. This is primarily a result of Zambia's methodology for recording GDP, which for the mining sector includes only the extractive process and does not account for refining and other processing, which are accounted for in manufacturing and trade. Furthermore, the mining industry is an important source of demand for goods and services from the manufacturing, wholesale and retail trade, financial and agriculture sectors. See "*Risk Factors–The Zambian economy is largely dependent on copper production and global market prices for copper*". Deposits of amethyst, emeralds, gold, selenium and silver are also present in the country.

The performance of the mining sector in 2013 was favourable as a result of increased copper production. Total copper production increased by approximately 0.6 per cent. to 790,007 Mt from 785,642 Mt in 2012. For the 10 largest mines, copper output increased by 12.3 per cent. to 783,468 Mt from 697,918 Mt in 2012 as a result of the coming on stream of the Lubambe Mine which produced 22,135 Mt, as well as increased output at Kansanshi, Lumwana Mine, Mopani Copper Mine and China Non-Ferrous Mining Corporation. Gold output also increased by 126 per cent. to 4,984 Kg from 2,199.1 Kg in 2012. Furthermore, coal production at Maamba Collieries increased to 148,768 Mt from 121,024 Mt in 2012.

The following table sets out Zambia's copper and cobalt production by large scale mines for the periods indicated:[1]

Year	Copper (Mt)	Cobalt (Mt)
2004	398,609	3,157
2005	464,653	7,409
2006	515,618	4,749
2007	565,550	4,459
2008	569,887	2,684
2009	698,179	1,460
2010	676,199	2,127
2011	667,604	1,652
2012	697,918	447
2013	783,468	(2)

Source: Ministry of Finance.

(1) It is difficult to accurately assess the small scale miners' contribution to the total copper and cobalt production.
(2) This information is not available as of the date of publication of the Prospectus.

In 2012, the Government increased the royalty tax for companies extracting base metals, including copper, to 6 per cent. compared with 3 per cent. in 2011, and to 6 per cent. from 5 per cent. in 2011 for companies extracting precious metals. See "*Public Finance–Taxation*". Furthermore, the Government has strengthened reporting requirements for mining companies in accordance with SI 6. In 2013, the Government continued to implement SI 34 which made it mandatory for mining rights holders to submit detailed annual reports and programmes of operation for the subsequent years. (See "*Risk Factors–The impact of the Government's recent policies and actions is not yet clear*").

In addition, under the Mines and Minerals Act of 2008, the roles and responsibilities of certain mining regulatory agencies (in particular the Directorates of Mines and Geological Survey) were streamlined in order to establish greater clarity with respect to licensing rules and licence tenures, as well as export reporting requirements.

In July 2013, the Government launched the "Revised Mineral Resources Development Policy" which is aimed at ensuring that Zambia's mineral resources are exploited for the benefit of all citizens and increasing the participation of Zambians in the sector as mine owners, suppliers and employees. The revised policy is in line with Government's Vision 2030 and mining vision "to have a vibrant, well organised private sector and private-public partnership-led mining sector contributing in excess of 20.0 per cent. towards GDP and sustainable economic development in the country by 2030". Under the new policy, the Government also intends to monitor production more closely up to the export of the minerals.

Zambia is also a member of the Extractive Industry Transparency International (the "**EITI**"), which seeks to improve the management of finite natural resources in countries by promoting transparency in revenue payments and flows, and a greater dialogue amongst the key stakeholders, namely the Government, the extractive industry and civil society. Zambia declared its intention to join the EITI in 2008, and after conducting two reconciliation reports and being successfully validated, was declared a compliant country by the EITI Board in September 2012. The reconciliation reports provide basic data on the mining industry and tax payments made by the mining sector to the authorities, as well as the reported tax receipts by central and local government.

In 2013, the Revenue Watch Institute produced a Resource Governance Index (the "**RGI**") which measures the quality of governance in the oil, gas, and mining sectors in 58 countries. These countries produced 85 per cent. of the petroleum worldwide, 90 per cent., of diamonds and 80 per cent. of copper. The RGI evaluated four components: institutional and legal environment, reporting practices, safeguards and quality control, and protecting the environment. Zambia was ranked 17th out of 58 countries and was the third highest ranked African country.

Significant Metals Produced

Copper

Copper mineralisation was first discovered at the turn of the century but large scale production only commenced in the 1930's with the establishment of the Roan Antelope mine near Luanshya in 1931, followed rapidly by the Nkana mine in 1932, the Mufulira mine in 1933 and the Nchanga mine in 1939. The area of these mines came to be known as the Copperbelt. Copper production exceeded 400,000 Mt per year in the late 1950's and reached levels of 700,000 Mt per year in 1969–1976 before beginning a progressive decline and sinking to a 1995 low of 307,000 Mt. However, the privatisation of ZCCM Ltd in 2002 began a rejuvenation of the industry and led to successive increases in production.

Cobalt

Cobalt is primarily produced as a by-product of copper mining. Nearly all cobalt is extracted from the ores of copper, nickel or copper-nickel. The copper-cobalt ores of Zambia are processed in the conventional manner to produce a copper-cobalt concentrate. The concentrate is then treated by flotation to separate a cobalt-rich concentrate for treatment in the cobalt circuit. Cobalt concentrates, which can contain as much as 15 per cent. cobalt, are then processed further, using either pyrometallurgical or hydrometallurgical extractive processes.

Gold

Zambia has a history of gold mining on a relatively small scale, with the twenty larger deposits having produced a total of slightly more than 2 Mt of gold since modern mining began in 1902. The largest past producers are the Dunrobin mine (990 kg), Jessie (390 kg), Sasare (390 kg), and Matala (225 kg). Dunrobin has recently been re-opened by Reunion Mining plc and is scheduled to produce 500-600 kg gold per annum. To date, more than 300 gold deposits have been reported throughout the country with the mesothermal lode deposits (representing the great majority of gold deposits) mostly localized within structures related to the Mwembeshi Shear Zone in central Zambia. Gold exports are estimated at US $124.3 million in 2012.

Significant Mines

Mopani Copper Mine

Glencore International Plc's ("**Glencore**") Mopani Copper Mine Plc ("**Mopani**") is an integrated copper and cobalt producer located in the Copperbelt of Zambia. Mopani's operations consist of four underground mines, a concentrator and a cobalt plant in the town of Kitwe and an underground mine, concentrator, smelter and refinery in the town of Mufulira. The capacity of the Mufulira copper smelter was expanded in a phased approach to approximately 870,000 Mt of concentrate in 2010.

In addition, Glencore began work on the US$320 million shaft deepening project at Mopani in the second quarter of 2012. The project involves construction of a seven meter diameter main shaft and a six meter diameter ventilation shaft to a depth of 1,277 meters, and will provide access to about 115 million Mt of ore at a grade of 1.9 per cent. copper and 0.09 per cent. cobalt.

Konkola Copper Mines

Konkola Copper Mines Plc ("**Konkola**") operates four mine shafts used primarily for mining copper. The Konkola Deep Mining Project involves expanding the production of copper ore at the Konkola mine from 2 million Mt per annum to 7.5 million Mt per annum by accessing the rich ore body that lies beneath what the current operations have been exploiting. This involves the sinking of a new mine shaft to the depth of 1,490 metres, the deepest new shaft sinking project in Africa. Konkola's Nchanga mine for copper and cobalt is situated in the Zambian Copperbelt in the vicinity of the town of Chingola. Konkola's Nampundwe mining assets are the Nampundwe pyrite underground mine and concentrator. These are located in the Central Province of Zambia, approximately 50 kilometres west of Lusaka, where pyrites from iron rich ore are mined.

Kansanshi Mine

The Kansanshi mine is the largest copper mine in Africa, situated approximately 10 kilometres north of the town of Solwezi and 180 kilometres to the northwest of the Copperbelt town of Chingola. It is 80 per cent. owned by Kansanshi Mining PLC, a First Quantum subsidiary, whilst the remaining 20 per cent. is owned by ZCCM Investments Holding plc ("**ZCCM- IH**"). The Kansanshi mine has undergone several expansions since it began operating in 2005 and is now capable of producing 340,000 tonnes of copper and more than 120,000 ounces of gold per year. A multi-stage expansion project involves increasing copper output capacity to approximately 400,000 tonnes by 2015.

Lumwana Mine

The Lumwana Mine is situated in the Solwezi district, in the Northwestern Province of Zambia, approximately 660 kilometres northwest of Lusaka. In July 2011, Barrick Gold acquired a 100 per cent. interest in the mine from Equinox Minerals Limited. Lumwana ore, predominantly sulfide, is treated through a conventional sulfide flotation plant, producing copper concentrate for smelting. In addition to copper, the mine also produces cobalt, gold, and uranium. In the first nine months of 2013, the mine produced 193 million pounds of copper and it is estimated that there exist 6.0 billion pounds of proven and probable copper reserves. Barrick Gold is in the process of advancing an expansion study with a view to double processing rates.

Government Ownership of Mines

ZCCM-IH, a successor company to Zambia Consolidated Copper Mines Limited ("**ZCCM Ltd**"), is an investment holding company with the majority of its assets in the copper mining sector of Zambia. The Government owns 87.6 per cent. of the company's shareholding with minority shareholders holding the remainder. ZCCM Ltd was formed as a result of the merger of the Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM) in 1982. The privatisation of ZCCM Ltd commenced in 1996 and was completed in March 2000. Prior to privatisation in 2000, ZCCM Ltd was a consolidated copper mining conglomerate majority-owned by the Government. Until 31 March 2000, ZCCM Ltd was 60.3 per cent. state owned, with Zambia Copper Investments Ltd, an associate of Anglo American Plc, holding 27.3 per cent. and the remainder of shares were held by private investors.

Currently, ZCCM-IH has a 10 per cent. shareholding in Mopani and a 20.6 per cent. share in Konkola. ZCCM-IH's other holdings include a 10 per cent. shareholding in Kansanshi Copper Mine Plc; a 15 per cent. shareholding in NFC Africa Mining Plc; a 15 per cent. shareholding in Chibuluma Mines Plc; and a 10 per cent. shareholding in Chambeshi Mines Plc.

Tourism

Zambia has a significant tourism industry based on its vast natural resources, including varied scenery, wilderness and wildlife, adventure activities, diverse culture and national heritage. In addition to the renowned Victoria Falls, a UNESCO world heritage site, Zambia has many other tourist attractions, including 19 national parks and 34 game management areas covering over 22.4 million hectares. Much of the existing tourism sector is concentrated in a limited number of national parks including the North Luangwa, South Luangwa, Kafue, Lower Zambezi, Musi-o-Tunya and Kasanka. Zambia's wildlife estate is one of the largest in the region, with wildlife protected areas occupying about 40 per cent. of the country's land surface area. Zambia has a variety of ecosystems with over 3,000 different species. The wildlife estate includes important wetlands such as the Kafue flats in the Central Province and the Bangueulu swamps in the Luapula Province.

Zambia's tourism sector has seen positive growth in recent years, with tourist arrivals increasing by 20 per cent. on average during the period 2004 to 2007, but suffered somewhat from the impact of the global economic recession, with tourist arrivals dropping by 9.5 per cent. in 2008. In 2013, the number of tourist arrivals marginally increased by 6.5 per cent. to 914,576 from 859,088 in 2012, partly as a result of Zambia co-hosting with Zimbabwe the 20^{th} Session of the United Nations World Tourism Organisation (UNWTO) General Assembly. The majority of tourists came from Africa, which accounted for 78.8 per cent. of the total visits, followed by Europe at 8.6 per cent. Tourist arrivals from North America and South America also increased by 27.4 per cent. and 70.3 per cent., respectively whilst those from Asia & Pacific decreased by 30.9 per cent. Visits to major national parks also increased by 30.6 per cent. to 77,282 compared to 59,196 in 2012, and South Luangwa National Park continued to account for the largest share of the total visits at 53 per cent. as a result of improved road access.

The slow economic recovery, particularly in advanced economies, has partly contributed to slowed growth. The tourism sector was negatively affected by the lack of national airlines and international airlines cutting back on the number of flights to Zambia. Furthermore, some national parks were inaccessible by road during the rainy season. However, the 2013 United Nations World Tourism Organisation Conference attracted 4,000 delegates and raised Zambia's international profile as a world class tourism destination.

In 2014, the Government plans to further invest in tourism infrastructure, including the Kenneth Kaunda International Airport, and to improve accessibility to national parks, heritage sites and natural attractions. In addition, the Government intends to support local cultural heritage and develop the creative arts industry and to that effect has committed in the 2014 Budget to complete work on national film policy.

Employment and Labour

According to the LFS 2012, in 2012 Zambia's population aged 15 years and above was estimated at 7.9 million which was an increase from 6.2 million in 2005. Approximately 75.9 per cent. of the population (aged 15 years and above) was economically active. Approximately 7.8 per cent. of the labour force was unemployed. In 2012, the unemployment rate was 3.3 per cent. in rural areas and 14.2 per cent. in urban areas. The majority of the employed (52.2 per cent.) were in the agricultural sector, primarily subsistence farming. The LFS 2012 further recorded that only 15.4 per cent. of those employed were in the formal sector (see "*Risk Factors*—"*Zambia's economy faces certain structural challenges*").

Static levels of formal employment in Zambia stem partly from the limited diversification of the economy. The LFS 2012 notes that at 16 per cent., education accounted for more formal employment than any other sector. The formal sector experienced an improvement in 2007 following the drive to recruit more teachers and health personnel. Formal sector employment accounted for 12 per cent., 11 per cent. and 15.4 per cent. of total employment in 2005, 2008 and 2012 respectively. In 2012, in the formal sector, male employment accounted for 71.2 per cent. compared to 28.8 per cent. for females. The level of unemployment dropped to 7.8 per cent. of the total labour force; 14.2 per cent. of unemployed people were in urban areas and 3.3 per cent. in rural areas.

Wages for workers in Zambia are very low compared to neighbouring countries and the developed world. Even though nominal wages have increased over the years, corresponding real wage levels have actually declined over the same period.

However, in a bid to align wages with inflation and in order to fulfil the manifesto promise to improve the welfare of employees by reviewing the Minimum Wages and Conditions of Employment Acts, the Government introduced new minimum wages in 2012 for, *inter alia*, domestic employees, general non-unionised workers and shop workers. The Government enacted SI 45, 46, 47 of 2012 for domestic, general and shop workers and the revision of wages took effect from 4 July 2012. As a result, domestic workers are now paid a minimum monthly wage of at least K522.4 compared to the previous minimum monthly wage of K352.5. Furthermore, the Government has increased the minimum monthly wage for shop and general workers from its previous level of K767.1 to K1,132.4. The Ministry of Labour announced that it will intensify labour inspections throughout the country in order to enforce the increases to the minimum wage. Representatives of some of the industry sectors raised concerns that the adjustments might have an adverse impact on competitiveness. In order to address these concerns, the Government is working with the Zambia Federation of Employees to adopt a sector based approach to the minimum wage. See "*Risk Factors– Certain Government policies may adversely impact economic growth*".

Environment

According to the UNDP, Zambia is one of the most forested countries in Southern Africa and is recognised as one of the top ten countries with the highest deforestation rates in the world of 0.33 per cent. per year. Deforestation is proving a serious threat to the diversity of flora and fauna. The rate of deforestation is 250,000 to 300,000 hectares per year and the forest cover area has reduced from 59 per cent. in 1996 to 38 per cent. in 2010 and 500 hectares have been planted to reduce deforestation.

In 2011, a national environmental policy was adopted and a national climate change adaptation programme of action ("**NAPA**") was launched in order to respond to the United Nations Framework Convention on Climate Change. The Government recognises that Zambia, as a member of the Least Developed Countries, has limited resources to effectively respond to the threats posed by climate change. The aim of NAPA is therefore to complement the efforts of the Government to address the threats posed by climate change through:

- contributing to the security of vulnerable Zambians;
- ensuring that the livelihoods of the most vulnerable Zambian households are secured against the adverse effects of climate change and their basic needs assured;
- protecting vulnerable groups of Zambians from the worst impacts of risks and shocks as a result of climate change; and
- creating public awareness of the adverse effects of climate change.

In addition, the Government has also established the National Disaster Management Policy and the Disaster Management and Mitigation Unit under the office of the Vice President in order to respond to disasters such as floods and droughts at the national level. The Government committed in the SNDP to reduce the socio-economic impact of disasters and to build infrastructure which can withstand natural disasters.

The percentage of the population without sustainable access to an improved water source decreased between 1996 and 2006 from 51 per cent. to 40 per cent. In rural areas, approximately 60 per cent. of the population have no access to safe drinking water.

Air pollution is increasing due to the use of fossil fuels and increased use and production of chemicals. Sulphur dioxide, ammonia, nitrogen oxides and particulate matter are the main pollutants. In addition, sewerage water pollution is becoming a problem in Zambia with water utility companies discharging sewerage water above statutory limits and draining raw sewage water into rivers without treatment. In order to address these issues, the Government committed in the SNDP to revise the National Policy on the Environment, Environmental Protection and Pollution Control Act and the Strategic Environmental Assessment. In addition, the Government has been strengthening various sector policies in order to promote environmental sustainability. To that end, the Government committed to employ an Environmental Protection and Pollution Control Programme under which sector policies and legislation will be harmonised, pollution mitigation will be improved and the enforcement of environmental regulations will be strengthened. Furthermore, under the Environmental Management Act of 2011, both the Zambia Environmental Management Agency and members of the public can sue for damages following pollution. In December 2011, the Lusaka High Court ordered Konkola Copper Mines to pay K10 million (equivalent to approximately US$ 2 million) to 2,000 Chingola residents in Zambia's Copperbelt for polluting the Mushishima river.

Climate Resilience

To address the challenges of climate change head-on, Zambia is using resources available under the Pilot Programme for Climate Resilience ("**PPCR**") to enhance its resiliency to the impacts of climate change. The PPCR has funded various climate resilience projects including those which focus on two sub-basins of the Zambezi River. The first project in the Barotse sub-basin, received World Bank approval and is intended to strengthen the adaptive capacity and livelihoods of rural communities. The Government expects to establish a fully operational National Climate Change and Development Council or equivalent institution, to increase access of households in targeted districts to planning tools and resources provided by the project, and to further develop up to five canals in the region. The second project in the Karfue river basin, involved African Development Bank support and is intended to strengthen climate resilience infrastructure policies. The Government intends to address certain climate risks through the local development planning process, as well as rehabilitating rural roads that link farmers to markets with a view to buffering the roads against extreme climate change.

Infrastructure

Transport

The transport system of Zambia consists mainly of road and railways and to a lesser extent airlines and inland water. The Government realises the importance of transport infrastructure development and has increased budgetary allocations to finance key infrastructure projects as rail and road infrastructure in the country requires significant improvement. Particular emphasis is being placed not just on the traditional north to south transport links developed to extract and export mineral resources, but also on developing transport routes that better link the east and the west of the country in order to enhance regional trade. See "*Risk Factors– Certain Government policies may adversely impact economic growth*".

Roads

According to the UN, approximately 70 per cent. of the volume of Zambia's trade is carried on its road networks, with South Africa accounting for approximately 45 per cent. of total freight traffic. Currently, of Zambia's 40,113 kilometres of classified road network, only 7,213 kilometres are paved with the remaining 32,900 kilometres being unpaved.

The Government has committed to improve road infrastructure to reduce the cost of doing business, improve access to rural areas and promote new tourism destinations by making several projects a priority. Among these are the completion of the Zimba-Livingstone Road, the upgrading of the Choma Chitongo and the Chembe-Bridge-Mansa roads, and the improvement of other key road networks and feeder roads, particularly those leading to tourism destinations and farm block projects.

Rural road development in nine identified provinces is also a priority. With the support of key donors, the Government's Road Sector Investment Programme (ROADSIP), which is now in its second 10-year phase (2004 to 2013), is expected to bring the core 40,113 kilometre road network to a maintainable condition. In October 2012, the Government launched the Link Zambia 8000 Project. The project is aimed at construction of roads in Zambia and transforming Zambia into a land-linked country and is expected to result in the construction of 2,290 kilometres of roads in the first phase, 3,049km of roads in the second phase, and an upgrade of 2,862 kilometres of the road network in the third phase. All projects under the Link 8000 programme are expected to be carried out over a five to ten-year period. In August 2013, the Government also launched the Lusaka 400 project which envisages the rehabilitation and upgrading of approximately 400 kilometres of selected roads in Lusaka. The programme is expected to be completed by 2016. In addition, in September 2013, the President announced the Pave Zambia 2000 project under which 2,000 kilometres of urban roads will be paved using paving blocks technology. The work has commenced in Chawama in Lusaka and Petauke in Eastern Province.

Rail

The Zambian railway network operates on two systems, the Zambia Railways Limited ("**ZRL**") for which a 20-year concession was granted to Railway Systems of Zambia in 2003, and the Tanzania Zambia Railway System ("**TAZARA**"). ZRL is a private company incorporated and registered in Zambia and is a subsidiary of NLPI Limited, an investment-holding company registered in Mauritius. TAZARA is a statutory institution owned by the two governments of the United Republic of Tanzania and Zambia. TAZARA runs from Dares-Salaam to Kapiri Mposhi, near Lusaka, where it connects to the ZRL system. It is the main route for the transport of copper cathode to Europe, China and the United States. It is jointly owned by the Governments of Zambia and United Republic of Tanzania.

In 2013, the performance of the railway subsector was favourable with a registered growth rate of 24.2 per cent. compared to negative 33.4 per cent. in 2012 due to an increase in the cargo transport. In 2013, the number of passengers transported by rail decreased by 4.6 per cent. to a total of 867,946 from 909,741 in 2012 due to a decline in passengers transported by TAZARA. Cargo transported by rail increased by 23.2 per cent. to 1,014,216 Mt from 823,517 Mt in 2012. Rehabilitation of the rail infrastructure and procurement of new wagons contributed to this increase. Challenges continue to hamper the growth of the rail sector, including a lack of recapitalisation of infrastructure resulting in slowing traffic, and outdated signalling and communication systems. In a recent study on infrastructural challenges in Zambia, the World Bank noted the importance of rail transport as the most competitive form of transport for bulk, time-sensitive commodities such as copper. The World Bank have also argued that discriminatory pricing practices and abuses of monopoly power under the concession is having a distortionary effect on trade volumes not just in Zambia but within the SADC region. The Government is committed to supporting increased investment in rail infrastructure to reduce the burden of increasing mining sector exports on road infrastructure.

Air

Zambia's aviation sector was until recently one of the smallest in Southern Africa. Certain airlines have ceased operating in Zambia. Notably, in November 2013 British Airways closed its routes to and from Zambia. However, new entrants have increased the number of carriers operating intercontinental flights and these now include South African Airways, Emirates, KLM, Ethiopian Airways, Air Namibia, Kenya Airways and Proflight Zambia. Its four main international airports are in Lusaka, Ndola (servicing the Copperbelt region), Livingstone and Mfuwe. The aviation industry is growing and Zambia's National Airports Corporation is promoting Zambia as a regional hub. In 2012 new flights were introduced, namely Lusaka-Dubai, Lusaka-Amsterdam and Lusaka-Dar-es-Salaam. There was also an increased frequency of flights by South African and Kenyan Airlines. Furthermore, the Zambian Government is currently planning to invest USD$385 million to modernize Kenneth Kaunda International Airport, through a concessional loan from the Chinese government.

In 2013, passenger movements at the four international airports increased by 13.3 per cent. to 1,543,144 from 1,362,113 in 2012, as a result of a commencement of new flights by Ethiopian Airlines and increased frequencies by South African Airways, Kenya Airways and Proflight Zabia.

Telecommunications

Zambia's telecommunications market is dominated by mobile network operator Airtel Zambia which has a market share of around 44 per cent. However, the fastest subscriber growth is currently seen by MTN (formerly Telecel) from South Africa. The third competitor in the mobile market is the mobile division of the national telecommunications provider, Zamtel. However, Zamtel has been performing poorly in the mobile as well as the fixed-line sector, despite monopoly rights in the latter, including the international gateway. This has also limited growth in the internet and broadband sector, with some of the highest prices for international bandwidth on the continent. In addition, the efficiency and reliability of service remain hampered by poor fixed line infrastructure.

Zambia's telecommunications infrastructure covers over 70 per cent. of the population, primarily through mobile telephone services. While penetration remains low compared to developed countries, the mobile subscriber base was 10.4 million in 2013, a slight decline of 1.2% from the 10.54 million recorded in 2012. Zambia's rural areas are less serviced, with only 0.3 per cent. having fixed telephone lines as at September 2012. Zamtel provides approximately 90,000 fixed lines throughout the country (for a population of 14 million people) and has approximately 14 per cent. of the mobile subscriber base. On 5 April 2013, the Zambia Information and Technology Authority announced that it had begun criminal proceedings against Airtel, MTN Group and Zamtel on account of the companies failing to meet minimum quality standards. The operators will likely face punitive fines and could lose their operating licences.

There are 14 internet access private providers servicing a relatively small market of about 18,000 subscribers. Zamnet, which started operations in early 1990s, is the oldest provider. Overall internet usage increased in 2013 by 1.2 per cent. to 2,534,363 compared to 2,330,822 as a result of an increase in both fixed wireless and mobile subscription. Fixed wireless subscription increased by 8.78 per cent. to 17,231 compared to 15,839 in 2012. Internet penetration in 2013 benefitted from an increase in mobile cellular coverage of 79.4 per cent. and the upgrade of mobile networks by the three mobile network operators. The internet penetration rate per 100 inhabitants increased from approximately 17.3 in 2012 to 18.5 in 2013.

Energy

Electricity

There are currently five domestic electricity providers in Zambia: ZESCO Limited ("**ZESCO**"), Copperbelt Energy Corporation ("**CEC**"), Lunsemfwa Hydro Power Company ("**LHPC**"), North-Western Energy Company ("**NWEC**") and Zengamina Power Limited ("**ZPL**"). ZESCO is a state-owned, vertically integrated utility involved in the generation, transmission, distribution and supply of electricity throughout the country. CEC is a private company that owns part of the transmission and distribution network on the Copperbelt Province. CEC purchases bulk power from ZESCO and supplies this power to the mines on the Copperbelt Province. LHPC is an independent power producer located in the Central Province involved in the generation, distribution and supply of electricity. NWEC is a privately-owned utility that is involved in the distribution and supply of electricity to the non-mining areas within and around the Lumwana mine area in the North-Western Province. ZPL is a privately owned off- grid utility that is involved in the generation, distribution and supply of electricity to the Kalene area in the North-Western Province.

Zambia's hydropower resource potential stands at an estimated 6,000 MW while its installed capacity is approximately 1,860 MW.

The electricity sub-sector has experienced continued growth in electricity demand over the past five years, and in 2013 consumption increased by 5.1 per cent. to 10,845,651 Mwh from 10,317,403 Mwh in 2012. This has primarily been driven by the strong growth in mining, industrial and domestic demand, with the mining sector accounting for 54.7 per cent. of demand. These rapid developments in power demand have put pressure on existing generation capacity that has been constrained by the on-going Power Rehabilitation Project (the "**PRP**"). This in turn has resulted in power shortages that have led to increased load shedding. Zambia benefits from the regional sharing of electricity. Countries such as South Africa which have surplus power run their stations at maximum output which in turn enables countries with limited power generation capacity to purchase excess of electricity. The Southern African Power Pool (the "**SAPP**") is a network of countries which have created a common power grid and a common market for electricity in the SADC region. SAPP consists of 12 members, namely Angola, South Africa, Mozambique, Zimbabwe, Zambia, Namibia, Botswana, the Democratic Republic of Congo, Swaziland, Tanzania, Lesotho and Malawi. Depending on regional demand, Zambia imports electricity from regional sources at times to address domestic power shortages and exports power during off-peak hours to South Africa, Namibia, Zimbabwe, Botswana and the Democratic Republic of Congo when it has excess supply. Despite the availability of imports, at peak times occasional electricity shortages occur.

On completion of the PRP by ZESCO, power shortages are expected to be alleviated in the short term. In order to secure Zambia's future energy requirements and in an attempt to diversify its economy, works on projects such as the 700–800 MW Kafue Gorge Lower, 120 MW Itezhi-Tezhi, and the Kariba North Bank Extension Project are underway and are expected to result in more than 1,000 MW of capacity added to the national grid. In 2013, the extension of the Kariba North Bank Power Station added 180MW of hydro power to installed capacity and the project is expected to be fully operational by the second quarter of 2014. The Itezhi-Tezhi project is expected to commence power generation in 2015 adding 120MW capacity while the Kafue Gorge Lower power station will add capacity of 750MW in 2019. In addition, in order to meet the growing demand for power, Maamba Collieries Ltd. has also commenced building a 300MW coal-fired power plant. The construction of two new hydro power plants in Northern Zambia is underway and is expected to result in a total of 247 MW added to the national grid by 2017. The plants will be the first large-scale electricity generator in Northern Zambia and will supply power to existing copper mines and planned manganese mines. Preliminary engineering work has started and the main construction works are expected to begin by the second quarter of 2014.

Once completed, these projects will improve the country's electricity generation mix from 99 per cent. hydro based power to just over 60 per cent. hydro based power by 2015 and are expected to add 820MW to the national grid by 2016. Furthermore, the Government is in the process of establishing a grid code to ensure fair and efficient sharing of distribution networks, and will continue tariff reform to ensure full cost recovery. Construction of new transmission networks will also be required to facilitate the transmission of this additional power to consumers.

Petroleum

Currently, petroleum in Zambia is imported as either commingled feedstock or finished products to service the market through a supply chain including transporters, refiners and depots. Most of Zambia's petroleum is delivered via the 1710 kilometre TAZAMA pipeline system. The pipelines and associated infrastructure was set up in 1968 and is jointly owned by the governments of Tanzania and Zambia with a shareholding of 33 per cent. and 67 per cent. respectively. The pipelines consist of a series of 8 and 12 inch sections. The pipeline is used for conveying commingled feedstock from the tank farm at Kigamboni (Dar-es-Salaam) in Tanzania to the Indeni Petroleum Refinery in Ndola, Zambia. The design throughput for the pipeline is 1.1 million Mt per year at an average flow rate of 160 metres cubed per hour. The pipeline was originally designed to transport white products but was later converted to a crude mode in 1973 when the Indeni refinery came on stream.

Importation of crude oil feed stock as at December 2013 was lower at 518,013 Mt compared to 642,683 Mt by end December 2012. Importation of feed stock was mainly influenced by crude oil prices on the international market and the exchange rate, as well as domestic demand.

Privatisation

In July 1992, Parliament passed the Privatization Act, establishing the Zambia Privatization Agency (the "**ZPA**") as the sole institution responsible for privatising state enterprises. The ZPA was given the responsibility to plan, implement and control the privatisation of state-owned enterprises in Zambia, and was established with a 12 member board, with the majority of members representing the private sector, in an effort to shield it from political interference and pressure. Prior to implementing the privatisation regime, approximately 80 per cent. of economic activities in Zambia were controlled by the state. This has since been reduced to between 10 and 15 per cent.

As at September 2012, a total of 264 enterprises have been transferred to the private sector out of a total portfolio of 288. Most of the small and medium-sized enterprises were privatised in the mid-1990s. ZCCM Ltd was privatised in 2000 and the largest consumer bank, the Zambia National Commercial Bank, was privatised in 2006. Zamtel was recently privatised in 2010 with the sale of 75 per cent. of its shares to LAP Green Network of the Libyan Arab Jamahiriya. The Government subsequently reversed this sale on the grounds of alleged impropriety in the sale transaction and this matter has now been referred to the courts. LAP Green Network made an application to transfer the proceedings to London and in March 2013 the High Court of Lusaka granted the order. The Government has appealed against the order and is amenable to out-of-court settlement with LAP. See "*Risk Factors– Certain Government policies may adversely impact economic growth*" Other state-owned companies include ZESCO, Zambia Postal Services Corporation, Zambia State Insurance Corporation, Tanzania-Zambia Railways and the National Airports Corporation. Gross receipts from privatisation to date are approximately US$433 million, with the mining sector alone accounting for US$339 million. Privatisation of the copper industry also relieved the Government from covering significant losses generated by the industry and greatly improved the chances for copper mining to return to profitability and spur economic growth. As a result copper output has increased steadily since 2004, due to a combination of higher copper prices and foreign investment.

Multi-Facility Economic Zones

The Multi-Facility Economic Zones (the "**MFEZ**") programme falls under the auspices of the Triangle of Hope Initiative established in Zambia in 2005 by the Japanese Government through the Japan International Corporation Agency. The programme is aimed at increasing Zambia's competitiveness through increased activity in the trade and manufacturing sectors. The MFEZs are specially designated industrial zones for both export-oriented and domestic-oriented industries with good infrastructure in place and favourable regulations such as a concessional tax and duty regime. MFEZs have been created in order to attract and facilitate the establishment of world-class enterprises and foster a greater inflow of FDI and foreign technologies and ultimately to develop and enhance the productivity of the manufacturing sector in Zambia. There are four designated MFEZs in Zambia, namely Chambishi in the Copperbelt Province, Lusaka East and Lusaka South in Lusaka Province; and Lumwana in North Western Province; and two Industrial Parks, namely Ndola (Sub Saharan gemstones exchange) and Roma. The MFEZ programme is still in the development stage.

Currently, of the four planned MFEZs, only the MFEZ in Chambishi in the Copperbelt Province is operational.At the present time, the Chambishi MFEZ's operations comprise the activities of the Zambia China Economic and Trade Cooperation Zone (the "**ZCCZ**"), which is located within the Chambishi MEFZ. The ZCCZ is the first overseas economic and trade cooperation zone declared by the Chinese government in Africa, which realised US$780 million of investment by the end of 2009. To date, 25 Chinese enterprises worth US$1.2 million have set up business in the Chambishi MFEZ, some of which have commenced operations and some of which are still in development.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade

Zambia remains committed to a liberal trade regime and efforts to deepen this process further have continued through regional and multilateral arrangements. The Government believes this is important in promoting export-led growth and economic diversification. Zambia hosts the headquarters of the COMESA and remains active in the SADC. It is a founder member of both groups.

Zambia's pro-trade policies and improved trade related infrastructure such as the One Stop Border Post at Chirundu with Zimbabwe and Kasumbalesa with the Democratic Republic of the Congo, and the launch of the Simplified Trade Regime at the Mwami border post with Malawi, have yielded benefits.

Imports and Exports

The following table sets out certain information regarding selected expenditure on imports and export earnings for the periods indicated:

	Year ended 31 December					
	2008	2009	2010	2011	2012[1]	2013[2]
			(*US$ millions*)			
Exports						
Metals (f.o.b.)	**4,003.9**	**3,343.2**	**6,071.7**	**6,915.7**	**6,511.0**	**7,086.6**
Copper	3,687.5	3,179.3	5,767.9	6,660.2	6,294.5	6,941.3
Cobalt	316.5	163.9	303.8	256.0	216.5	145.3
Non-Metal (c.i.f.)	**927.7**	**952.4**	**1,260.0**	**1,690.4**	**2,851.7**	**3,558.4**
Copper Wire	158.0	110.4	170.2	169.7	151.4	119.2
Cane Sugar	60.7	98.1	148.1	165.0	141.9	184.6
Burley Tobacco	74.6	89.6	117.5	100.6	156.6	215.6
Cotton Lint	35.4	45.7	49.4	118.2	129.1	85.8
Electrical Cables	56.3	38.2	41.7	41.7	50.9	53.2
Fresh Flowers	23.7	22.7	22.0	20.8	23.7	32.6
Cotton Yam	7.5	0.0	0.0	0.0	0.0	0.0
Fresh Fruits and Vegetables	27.0	22.0	11.2	9.2	15.7	35.4
Gemstones	32.4	38.9	49.8	35.8	232.3	220.6
Gas Oil/Petroleum Oils	25.9	30.7	27.6	36.8	97.1	142.1
Electricity	3.3	10.5	23.3	16.9	42.7	74.4
Maize & Maize Seed	51.4	21.9	36.3	187.5	442.5	151.9
Wheat & Meslin	33.3	21.2	32.1	31.1	35.4	17.5
Cement & Lime	11.1	41.2	15.6	81.8	26.0	233.7
Nickel	-	-	-	44.9	-	-
Gold	-	-	-	81.0	94.3	192.0
Imports (c.i.f.)						
Food Items	294.7	255.4	263.9	381.6	504.9	458.3
Petroleum Products	815.6	535.8	561.1	530.6	935.3	1,082.6
Fertiliser	204.1	197.7	175.7	330.1	304.3	382.9
Chemicals	643.4	424.4	595.4	776.6	906.2	1,013.4
Plastic and Rubber Products	212.6	186.7	228.4	350.5	434.62	491.0
Paper and Paper Products	98.2	102.2	80.4	115.9	137.2	143.3
Iron and Steel and items thereof	328.9	225.7	290.8	476.0	569.2	800.1
Industrial Boilers and Equipment	840.1	583.9	799.7	1,299.8	1,507.9	1,823.9
Electrical Machinery and Equipment	321.7	208.5	218.3	466.6	497.6	626.1
Vehicles	492.9	282.8	335.9	613.9	875.4	892.3

Source: Bank of Zambia
(1) Based on the relevant monthly average interbank exchange rate as published by the Bank of Zambia.
(2) Preliminary data subject to revision.

In 2013, Zambia's export earnings (with metal exports measured on a free-on-board (f.o.b.) basis increased as a result of increased metal production and exports, as well as increased exports of non-traditional products such as cane sugar, burley tobacco, gasoil and petroleum products, electricity, cement and lime, and gold. Merchandise export earnings increased by 13 per cent. from US$9,204.6

million in 2012 to US$10,398.5 million in 2013. This was primarily a result of a 23.0 per cent. increase in Non-Traditional Export ("**NTEs**") earnings. The surge in NTEs was due to increased earnings from exports of burley tobacco, cane sugar, fresh flowers, fresh fruits and vegetables, electricity and petroleum products. Copper export earnings increased by 10.3 per cent. to US$6,941.3 million from US$6,294.5 million due to higher export volumes. Cobalt export earnings, however, decreased by 32.9 per cent. to US$145.3 million from US$216.5 million in 2012 as a result of lower export volumes and realised prices. The contribution of exported minerals to total exports decreased from 69.5 per cent. in 2012 to 66.6 per cent. (with copper exports accounting for approximately 65.0 per cent. of total exports in 2013), reflecting Zambia's narrow export base. Copper export volumes stood at 981,340.59 Mt, 11.3 per cent. higher than in 2012.

The Government recognises that the dominance of the extractive sector in Zambia's exports is a source of vulnerability and that efforts to diversify away from Zambia's traditional reliance on copper need to be accelerated. See "*Risk Factors – The Zambian economy is largely dependent on copper production and global market prices for copper*". Other significant exports in 2013 included gemstones, burley tobacco and cane sugar. During 2013, the merchandise imports (measured on f.o.b. basis) grew by 16.5 per cent.to US$9,234.8 million from US$7,925.5 million in 2012. This was primarily due to increased imports of commodities, such as steel, iron and items thereof (40.6 per cent.), fertiliser (25.9 per cent.), electrical machinery and equipment (25.8 per cent.), industrial boilers and equipment (21 per cent.), petroleum products (15.8 per cent.), plastic and rubber products (13.0 per cent.), chemicals (11.8 per cent.), and paper and paper products (4.5 per cent.), following the Government's continued investment in infrastructure development and rise in foreign investment inflows.

Trading Partners

Zambia's major trading partners, by per cent. of total exports in 2013, were Switzerland (36.5 per cent. which was primarily a result of the amount of copper trading undertaken there), China (21 per cent.), Democratic Republic of the Congo (11.8 per cent) and South Africa (10.2 per cent.). Since 2009, China has been Zambia's primary export destination (with the exception of Switzerland), purchasing more than a quarter of the country's exports.

The table below sets out the destination of Zambia's exports to selected countries (calculated with metal exports measured on a free-on-board (f.o.b) basis and non-metal exports measured on a cost, insurance and freight (c.i.f.) basis) for the periods indicated:

	Year ended 31 December					
	2008	**2009**	**2010**	**2011**	**2012**	**2013(1)(2)**
			(US$ millions)			
Switzerland	2,530.4	2,027.2	3,673.5	4,398.7	3,587.3	3,868.1
China	280.6	482.6	1,073.3	1,503.9	1,822.4	2,255.4
South Africa	524.8	395.0	659.9	887.3	1,001.3	1,082.3
Democratic Republic of Congo	286.6	300.1	332.8	507.6	750.4	1,230.0
United Kingdom	115.1	87.2	134.8	330.9	302.2	147.4
Zimbabwe	63.9	84.3	119.2	250.3	419.0	225.1
United Arab Emirates	23.7	141.0	176.2	92.1	225.3	550.4
Malawi	62.9	73.2	102.7	85.0	186.4	214.9
United Republic of Tanzania	45.3	34.5	31.6	58.8	295.1	69.7
India	32.5	49.4	10.9	26.5	68.2	126.7
Netherlands	127.3	42.4	44.9	14.1	30.1	23.5
United States of America	25.9	5.2	7.4	6.2	7.8	13.2
Kuwait	19.5	31.9	13.2	-	0.1	0.0

Source: Bank of Zambia and Central Statistical Office

(1) Preliminary data subject to revision.

(2) Numbers for 2013 are showed on f.o.b basis.

The table below sets out the origin of Zambia's imports for selected countries (on a cost, insurance and freight (c.i.f.) basis) for the periods indicated:

	Year ended 31 December					
	2008	2009	2010	2011	2012	2013(2)
			(US$ millions)			
South Africa	2,154.0	1,515.7	1,827.7	2,533.7	2,960.0	3,090.6
Democratic Republic of Congo	534.6	486.7	1,227.9	1,339.0	1,262.2	1,850.3
China	227.2	178.0	216.5	691.0	868.1	963.3
Kuwait	295.1	407.5	463.0	334.3	552.2	216.7
India	191.6	130.9	110.3	247.9	305.2	371.2
United Kingdom	157.1	136.0	105.8	189.9	220.3	299.2
United Arab Emirates	123.5	109.7	116.7	186.3	217.7	241.1
Zimbabwe	158.6	56.9	72.0	87.4	89.9	130.6
United States of America	71.7	50.7	72.3	97.2	248.3	252.7
United Republic of Tanzania	47.6	33.7	40.9	54.9	71.4	76.3
Switzerland	36.5	16.9	20.6	61.5	81.8	67.0
Netherlands	34.8	31.0	30.9	42.6	61.0	69.4
Malawi	16.6	12.2	13.4	17.4	68.3	25.5

Source: Bank of Zambia and Central Statistical Office
(2) Preliminary data subject to revision.

Balance of Payments

According to preliminary data, during 2013 Zambia had a balance of payments deficit of US$344.9 million compared to a surplus of US$726.7 million in 2012 and a surplus of US$243.8 million in 2011. In line with this, gross international reserves declined to US$360.2 million compared to US$721.9 million in 2012, the decrease being largely driven by the narrowing of the current account surplus and the widening of the capital and financial account deficit. In 2013, the current account remained in surplus but narrowed to US$216.5 million compared to US$802.6 million 2012, following the widening of income account and services account deficits, and a decline in current transfers which could not be offset by a marginal increase in the balance goods surplus. In 2013, the income account deficit widened to US$753.3 million compared to US$333.5 million in 2012 as a result of higher income on equity payments. Similarly, the services account deficit widened by 6.9 per cent. to US$821.4 million compared to US$768.3 million as a result of higher import related service payments. During the same period, current transfers inflows declined to US$388.9 million compared to US$453.9 million in 2012 due to the non-disbursement of programmed budget grants by cooperating partners.

During 2013, the capital and financial account deficit substantially widened to US$512.3 million from US$7.1 million in 2012 as a result of a reduction in foreign direct investment and a decline in portfolio investments by 87.8 per cent.

The following table sets out certain information regarding Zambia's aggregate balance of payments for the periods indicated:

	Year ended 31 December					
	2008	2009	2010[(1)]	2011[(1)]	2012[(1)]	2013[(2)]
			(US$ millions)			
Current Account	**(1,038.8)**	**538.4**	**1,205.5**	**704.7**	**802.6**	**216.5**
Balance on Goods	**407.4**	**905.7**	**2,703.7**	**2,205.6**	**1,450.5**	**1,402.3**
Exports (f.o.b)	**4,880.2**	**4,242.9**	**7,261.7**	**8,512.3**	**9,204.6**	**10,398.5**
Metal Sector	4,004.0	3,343.1	6,071.7	6,915.7	6,511.0	7,086.6
Copper	3,687.5	3,179.3	5,767.9	6,659.7	6,294.5	6,941.3
Cobalt	316.5	163.9	303.8	256.0	216.5	145.3
Nickel	–	–	–	–	–	–
Non-traditional	876.2	899.7	1,190.0	1,596.6	2,693.5	3,312.0
Imports (f.o.b)	**(4,554.3)**	**(3,413.4)**	**(4,709.9)**	**(6,454.2)**	**(7,925.5)**	**(9,234.8)**
Metal Sector	(1,380.5)	(866.0)	(1,029.3)	(1,567.3)	(2,083.7)	(2,560.1)
Non Metal Sector	(3.173.8)	(2,547.4)	(3,680.6)	(4,887.0)	(5,841.9)	(6,674.7)
Fertilizer	–	(197.8)	(215.3)	(330.0)	(304.3)	(391.7)
Petroleum	–	(535.8)	(618.1)	(530.5)	(930.6)	(1,200.5)
Maize	–	–	–	–	–	–
Others	–	(1,813.9)	(2,847.2)	(4,026.5)	(4,606.9)	(5,082.5)
Goods Procured in Ports by Carriers (Bunker Oil)	**37.4**	**39.6**	**42.0**	**44.5**	**47.2**	**50.0**
Nonmonetary Gold	**44.1**	**36.6**	**109.9**	**103.0**	**124.3**	**188.6**
Services (Net)	**(606.9)**	**(464.5)**	**(567.0)**	**(723.6)**	**(768.3)**	**(821.4)**
Services Receipts	299.6	240.9	310.9	374.5	466.3	583.0
Services Payments	(906.5)	(705.4)	(877.9)	(1,098.1)	(1,234.6)	(1,404.4)
Balance on Goods and Services	**(199.5)**	**441.2**	**2,136.7**	**1,482.0**	**682.6**	**589.9**
Income Net	**(1,399.3)**	**(418.7)**	**(1,363.0)**	**(1,155.3)**	**(333.5)**	**(753.3)**
Income Receipts	29.5	5.5	8.4	11.1	10.1	4.9
Income Payments	(1,428.9)	(424.2)	(1,371.4)	(1,166.4)	(343.6)	(758.2)
Of Which: Income on Equity Payments	(1,346.0)	(265 4)	(1,302.7)	(1,092.5)	(239.2)	(652.8)
Interest Payments	(54.1)	(131.2)	(39.8)	(44.8)	(74.1)	(76.6)
General Government	–	(12.7)	(9.3)	(13.9)	(43.6)	
Private Sector	–	(118.4)	(30.5)	(30.9)	(30.5)	
Current Transfers (Net)	**560.1**	**516.0**	**431.8**	**378.0**	**453.9**	**388.9**
Private	239.0	211.6	194.4	231.8	265.0	279.0
Official	321.1	304.3	237.4	146.2	188.9	109.9
Commodity, SWAP and Global Fund	150.1	105.9	89.1	11.9	65.0	
Budget Grants	171 0	198.4	148.3	134.3	123.9	
Capital and Financial Account	**1,046.1**	**64.8**	**(1,075.8)**	**(368.5)**	**(7.1)**	**(512.3)**
Capital Account	**230.0**	**237.3**	**149.7**	**151.0**	**223.0**	**101.0**
Capital Transfers	230.0	237.3	149.7	151.0	223.0	101.0
General Government	230.0	237.3	149.7	151.0	223.0	101.0
Project Assistance Grants	230.0	237.3	149.7	151.0	223.0	101.0
Financial Account	**816.1**	**(172.5)**	**(1,225.5)**	**(519.5)**	**(230.1)**	**(613.3)**
Direct Investment	938.6	425.2	633.9	1,109.9	2433.4	1,630.4
Portfolio Investment	(6.1)	(74.9)	73.6	70.7	917.7	112.1
Liabilities	–	(74.9)	73.6	70.7	779.5	112.1
Financial Derivatives	–	219.60	225.7	(154.3)	(10.8)	11.9
Other Investment	(116.4)	(742.4)	(2,158.7)	(1,545,8)	(3,570.4)	(2,367.6)
Assets	(443.5)	(1,579.3)	(2,085.5)	(2,183.9)	(3,922.3)	(2,560.0)
Increase in NFA – banks (-)	142.7	(63.2)	(172.9)	0.0	490.4	(42.0)
Other Assets	(586.2)	(1,516.1)	(1,912.6)	(2,183.9)	(4,412.7)	(2,518.0)
Liabilities	327.1	836.8	(73.2)	638.1	351.9	192.4
Government	67.4	76.7	121.9	371.1	171.9	110.2
Disbursement of Loans	110.8	76.7	161.0	397.3	407.4	223.5
Project	79.0	86.6	91.8	367.3	355.0	
Budget	31.8	32.8	69.2	30.0	52.4	
Amortization of Loans (-)	(43.3)	(42.8)	(39.1)	(26.2)	(235.5)	(113.5)
Monetary Authorities	–	627.3	–	–	–	
Private Foreign Borrowing (Net)	259.6	132.9	(195.1)	267.0	180.0	82.2
Errors and Omissions	5.3	(63.2)	(46.4)	(92.4)	(68.7)	(49.1)
Overall Balance	**12.7**	**540.1**	**83.3**	**243.8**	**726.7**	**(344.9)**
Financing	**(12.7)**	**(540.1)**	**(83.3)**	**(243.8)**	**(726.7)**	**344.9**

Source: Bank of Zambia

(1) Data for the years 2010 to 2013 were sourced from the Bank of Zambia.

(2) Preliminary data subject to revision.

Foreign Direct Investment

FDI into Zambia rose from a low of US$121.7 million in 2000 to US$1,630.4 million in 2013 (estimate). A sustained increase in inflows was notable from 2006, with the exception of 2008 and 2009 when the country experienced a major slump in inflows following the adverse effects of the global economic crisis. The increase is a result of the improved investment climate characterised by stability in major macroeconomic indicators, arising from prudent economic management by Government. The vast majority of FDI has been in the mining sector; however, FDI in other sectors such as manufacturing, construction, tourism and financial institutions has also been increasing. In recent years Zambia has targeted investments in large scale projects either through public-private partnerships or joint ventures from other emerging economies such as China, as well as Australia, Bermuda, British Virgin Islands, Canada, the Netherlands and United Kingdom.

The following table sets out FDI inflows into Zambia for the periods indicated:

Year ended 31 December					
2008	**2009**	**2010**	**2011**	**2012**	**2013**
		(US$ millions)			
939	695	1,729.3	1,108.5	2,433.4	1,630.4[(1)]

Source: Zambia Development Agency and Bank of Zambia
(1) Estimate.

The following table sets out FDI inflows from major source countries for the periods indicated:

	2011	**2012**	**2013 Q1[(1)]**	**2013 Q2[(1)]**
		(US$ millions)		
Canada	65.7	724.3	166.7	83.6
Australia	19.4	(555.4)	(56.9)	(11.0)
United Kingdom	112.3	227.2	148.4	91.4
British Virgin Islands	106.6	0.2	(0.3)	(0.3)
Netherlands	81.8	262.2	10.7	33.8
Bermuda	5.0	0.0	2.4	3.0
China	332.6	141.9	60.0	50.4

Source: Zambia Development Agency
(1) Estimate.

The future prospects of FDI inflows in Zambia are based on the volume and composition of investment pledges that the country continues to record through the Zambia Development Agency.

Notable planned investments in the manufacturing sector include the establishment of agro-processing plants across the country and mineral processing activities, including greenfield copper mining projects by new firms and brownfield projects by existing firms (many of which have been expanding their operations due to favourable copper prices on the international markets).

Trade Policy

Zambia has an open trade regime with trade liberalisation being an integral part of the Government's reform efforts. Import duties on virtually all raw materials and most industrial or productive machinery fall within the 0 per cent. to 5 per cent. tariff categories and nearly 70 per cent. of mining and quarrying related tariffs have a 5 per cent. tariff rate.

Zambia accords tariff preferences to COMESA and SADC members on a reciprocal basis. With the launching of the COMESA Customs Union in June 2009, the member states have agreed on common external tariffs on imports into COMESA with applicable rates of 0 per cent. for raw materials and capital goods; 10 per cent. for intermediate products; and 25 per cent. for finished products. Issues on classification of certain products including on some raw materials or processed products are still being discussed.

Zambia was ranked 83rd out of 185 countries in the World Bank's Doing Business Report of 2014, 90th in 2013 and 84th in 2012, as measured through key variables benchmarked against regional and high income economy averages. The country strengthened its insolvency process by introducing further qualification requirements for receivers and liquidators and by establishing specific duties and remuneration rules for them, but reduced in rankings regarding obtaining electricity, starting a business, dealing with construction permits, getting credit, protecting investors, trading across borders and enforcing contracts. There was no change in the rankings for registering property and paying taxes.

The Government continues to undertake business licensing reforms that include legislation and policy amendment for the further reduction of business licences (following the initial reduction of the number of licences from 517 to 283 in 2010), and streamlining the administrative procedures for obtaining the business licences. The reforms are aimed at reducing the cost of doing business and improving enterprise competitiveness, although the reduction of the number of licences is expected to have minimal revenue implications for local and central government as well as regulatory agencies.

PUBLIC FINANCE

Overview

Following a period of unsustainable fiscal deficits prior to 2004, Zambia's fiscal performance has improved in recent years. Rapid GDP growth, reduced public spending, debt relief and increased mining taxation helped the Government establish fiscal discipline and reduce fiscal deficits and debt to sustainable levels. The fiscal deficit fell from 7.9 per cent. of GDP in 2001 and 5.1. per cent. of GDP in 2002 to 3.2 per cent. of GDP in 2011 and 2.7 per cent. of GDP in 2012. Real GDP has grown every year since 1999, averaging 5.7 per cent. between 2002 and 2010. Improved fiscal management enabled the Government to reduce its domestic borrowing, and privatisation of Zambia's mines and the increase in copper prices resulted in mining taxes (income tax and mineral royalty) increasing from almost zero to 2.4 per cent. of GDP in 2013 and approximately 12 per cent. of total domestic revenues. Zambia's reliance on aid has also declined, and the country is now funding significant levels of capital investment from its own resources. According to OECD data, total aid increased from US$811 million in 2002 to US$1,269 million in 2009, however aid's share of GDP declined sharply from 21.9 per cent. to 9.9 per cent. over the same period.

At the onset of the global economic crisis, Zambia benefitted from strong macroeconomic fundamentals and fiscal position. However, in common with many countries, the economy was impacted by external factors and the Government responded to the sharp decline in revenue in 2009 following the financial crisis by cutting domestic expenditure by 0.7 per cent. of GDP and modestly increasing the deficit from 2.2 per cent. of GDP in 2008 to 2.5 per cent. in 2009. The further increase in deficit to 3.3 per cent. in 2010 was due to unbudgeted expenditure to finance the Food Reserve Agency's purchase of maize following the record 2009/2010 harvest. According to preliminary data, in 2013 the fiscal deficit increased to 6.8 per cent. of GDP, compared to the 2013 budget target of 4.3 per cent., due to, among other factors, the clearance of arrears relating to the fuel subsidy (removed in May 2013), higher than projected expenditures on the strategic food reserve, FISP, as well as higher pay for civil servants. However, in its 2013 Article IV Consultation Paper, the IMF had projected a higher deficit of 8.6 per cent. of GDP in 2013. This partly reflects differences in accounting for pensions arrears and the debt of the food reserve agency, as well as higher expenditure forecasts. According to the 2014 Budget Address, the Government expects the fiscal deficit in 2014 to reach approximately 6.6 per cent. of GDP. See "*Risk Factors–Zambia suffers from high levels of poverty and unemployment*".

In 2013, total Government expenditure accounted for 28 per cent. of GDP compared to 27.8 per cent. of GDP in 2012. Current expenditures (expenses) amounted to K25.5 billion and were 15.2 per cent. above the target. The main expenditures in 2013 related to personal emoluments amounting to 9.4 per cent. of GDP, transfers and pensions amounting to 5 per cent. and recurrent departmental charges amounting to 3.6 per cent. Spending on capital expenditure in 2013 accounted for 6.3 per cent. of GDP compared to 4.7 per cent. of GDP in 2012. In absolute terms capital spending was 53 per cent. higher than in 2012. A significant portion of such capital expenditure was directed toward the road infrastructure development and rehabilitation, which has recently been identified of crucial importance if the country is to harness the potential for inclusive economic development and reduce overall poverty.

Public sector wages remain the largest single category of Zambia's expenditure, and are high in comparison with other African countries. This is in part due to the centralised nature of Zambia's Government resulting in such wages being accounted for in the national budget, whereas many other African countries have more decentralised governments and as a result their public sector wages are budgeted over different levels of government. Efforts have however been made to ensure that public sector wages are kept within sustainable levels that ensure sufficient expenditure can be maintained to effectively deliver and implement other developmental programmes. Consequently, public sector wages declined from 54.3 per cent. of domestic revenues in 2009 to 46.9 per cent. in 2012. However, in mid-September 2013 a public sector wage award took effect and in March 2013 the Government awarded public sector workers an increased salary which was approximately 18 per cent of the public sector wage contemplated in the 2013 Budget. In 2013, public sector wages amounted to 48 per cent. of domestic revenues. For the 2014 budget and the current Medium Term Expenditure Framework (the "**MTEF**"), the Government's effort will continue to focus on ensuring that public sector wages are contained within an average of below 50 per cent. of domestic revenues.

Domestic revenue declined from 18.4 per cent. of GDP in 2007 to 16.0 per cent. of GDP in 2009 primarily as a result of the general slowdown in economic activity following the global economic crisis. Domestic revenue recovered, rising to 20.9 per cent. of GDP, in 2011. According to preliminary data, in 2013, domestic revenue slightly declined to 20.3 per cent. of GDP, compared to 21.1 per cent. in 2012.

As a developing country, Zambia faces certain structural economic challenges. These include a large informal sector, large rural population with a low population density, skills shortages, inadequate infrastructure, poverty, income inequality, limited access to affordable finance, and a large public sector wage bill. These challenges are being addressed through efforts to widen the tax base, increase revenue from mining, diversify the economy, reduce agriculture subsidies on consumption and improve access to affordable finance. The Government will continue to also focus on sustaining macroeconomic stability and enhancing the efficiency of the economy. See "*Risk Factors–Zambia's economy faces certain structural challenges*". The Government is committed to prioritising economic diversification, tackling the high poverty levels and job creation. In this regard, the Government will during the current MTEF aim to enhance rural development through such interventions as rural electrification, universal access to telecommunications, the development of rural feeder roads and enhancement of agricultural productivity.

Furthermore, the Government intends to increase expenditures in key social sectors, such as health, education and water and sanitation. The Government will continue to implement the National Rural and Urban Water Supply and Sanitation Programmes, and will increase the Rural Programme in order to achieve the Millennium Development Goal of increasing sustainable access to safe drinking water and sanitation.

Medium Term Expenditure Framework

In Zambia, adoption of the MTEF budget approach came about following a Cabinet decision in 2003 to reform the budget system by preparing a medium term national development policy as opposed to relying on single-year budgets. The Zambian framework aimed at ensuring efficiency in allocation and management of public resources, developing and maintaining fiscal discipline, ensuring commitment to budget priorities at national and sectoral levels and improving accountability and predictability of national resources. The framework was first utilised in the 2004/2005 budget. The 2013–2015 MTEF was published in September 2012.

The medium term macroeconomic objectives, which are based on the SNDP, are as follows:

- to achieve average real GDP growth of at least 7.5 per cent. per annum;
- expand and diversify the economy;
- sustain single-digit inflation;
- increase domestic resource mobilisation;
- maintain debt sustainability;
- limit domestic borrowing to not more than 2.0 per cent. of GDP;
- contain the overall deficit within sustainable levels;
- significantly increase formal sector employment; and
- lower the cost of doing business, including the cost of credit.

In September 2013, the Government adopted a new Public Financial Management (**PFM**) Reform Strategy for 2013-2015 onwards which will focus on ten areas, including the following:

- improving the preparation and execution of the budget;
- enactment of planning and budget legislation;
- strengthening expenditure control, accounting, audit functions and reporting; and
- improving cash management through a Single Treasury Account System.

The Government intends to continue implementation of its Integrated Financial Management and Information System the aim of which is to improve record keeping, budget preparation and execution, and the timely preparation of Government accounts; the Government will also introduce planning and budgeting legislation with a view to enhance the budget planning and execution and strengthening the oversight process.

Revenue and Expenditure in 2013

In 2013, total government revenue and grants amounted to K25.55 billion and were 2.7 per cent. below the target of K26.27 billion as a result of lower than anticipated collection of income tax and non-receipt of pledged support from some Cooperating Partners. Domestic revenues amounted to K24.53 billion representing almost 96 per cent. of total revenues, and external grants amounted to K1.02 billion. Tax revenues accounted for K23.08 billion and non-tax revenues accounted for K1.45 billion.

In 2013, total income tax revenue amounted to K11.6 billion and was below target by 9.6 per cent due to lower than expected collections from company income taxes mainly from the mining sector. In addition, mineral royalty collections amounted to K1.8 billion and were below the target by 8.4 per cent. However, collections from Pay As You Earn (PAYE) and other income related taxes such as withholding taxes were above the target by 13.2 per cent. and 18.3 per cent., respectively.

In 2013, collection of customs and excise duties amounted to K4.2 billion were below target by 11.7 per cent. due to removal of customs duty on a wide range of mechanical and electrical machines, and machine tools. VAT collections amounted to K7.3 billion and were 22.1 per cent. above target due to the enhanced enforcement mechanisms and audits. Non-tax revenue collections amounted to K1.4 billion and were above the target by 19.8 per cent. The increase was a result of higher than expected collections on user fees and charges which were above the target by 200.4 per cent. at K852.7 million, as well as the inclusion of fees charged by the Zambia Information and Communication Technology Authority (ZICTA) and the Energy Regulation Board (ERB). Recoveries under the FISP however amounted to K103.7 million and were below the target by 37.2 per cent.

The Ministry of Finance is in the process of improving revenue collection and strengthening enforcement measures, whilst at the same time seeking to facilitate trade. The Government is reviewing tax policy and administration with the view to revise and rationalise tax incentives, particularly with regard to VAT exemptions, customs and excise duties, and to simplify tax administration. A number of strategies have been adopted to improve revenue collection and management and diversify the revenue base in the medium term. These include measures to encourage voluntary compliance by taxpayers through a taxpayer education programme, facilitate compliance by taxpayers through measures such as e-payments, addressing the distortions in the application of VAT, broaden the tax base and remove the administrative challenges in enforcing the VAT Act, as well as ensuring that those with the same ability to pay are taxed equitably. In addition, pursuant to SI 6 the Government has strengthened the reporting requirements for mining companies in an effort to ensure that mining production is fully taxed. As a result of these measures, total revenue is expected to increase from 17.8 per cent. of GDP in 2010 to approximately 23.1 per cent. in 2014.

In 2013, total expenditures amounted to K33.8 billion and were above the target by approximately 6.6 per cent. due to higher than programmed releases on grants and other payments, fuel subsidies, personal emoluments and roads. Current expenditures during the same period were approximately 15.2 per cent. above the target, mainly due to increased personal emoluments (largely due to higher than projected wage award for public service workers), as well as increased grants and other payments, which were 68.9 per cent. above target mainly due to expenditures on fuel subsidy and investment in the procurement of seed and fertilizers.

In 2013, interest payments on Government securities stood at K1.87 billion and this was approximately 7.3 per cent. less than the budgeted amount due to the decline in average yield rates on Government securities. External debt interest payments amounted to K361.1 million and this was approximately 27.7 per cent. below the budgeted amount. Payments on amortisation amounted to K749.8 million and this was approximately 42.3 per cent. above the budgeted figure.

2014 Budget

The 2014 budget is aimed at consolidating growth, reducing poverty and achieving greater social justice. The budget of K41.28 billion, representing 30.7 per cent. of GDP, will be financed through domestic revenues of K29.54 billion, foreign and domestic borrowing of K10.51 billion (accounting for approximately 25 per cent. of the budget) and grants of K2.63 billion from cooperating partners. In line with the theme "Moving Forward to Consolidate Growth and Social Justice in Peace and Unity", the Government intends to dedicate K4.23 billion to health services, K245.7 million to construction and the rehabilitation of hospitals, health centres, training schools and the upgrading of tertiary health care and K8.61 billion to education. The Government also intends to increase the budget by 24.3 per cent. to the purchase of essential drugs and medical supplies and will allocate a further K66.6 million towards medical equipment.

The Government has committed in the 2014 budget to achieve real GDP growth of above 7 per cent., to attain end year inflation of no more than 6.5 per cent., to increase international reserves to over 3 months of import cover, and to maintain a fiscally sustainable public external debt level so that debt service and amortisation do not exceed 30 per cent. of domestic revenues. The Government also intends to increase domestic revenue collections to over 21 per cent. of GDP and to limit domestic borrowing to 2.5 per cent. of GDP, as well as contain the overall deficit to no more than 6.6 per cent. of GDP. Furthermore, the Government continues to be committed to creating 200,000 jobs.

In order to reduce spending on the public service wage bill, the Government intends to introduce a two-year public sector wage freeze and to defer recruitment until 2015. In October 2013, the Government opened negotiations with the Zambia Congress of Trade Unions with respect to the wage freeze. The Government also plans to adopt a 10 year Integrated Competitive Total Remuneration Strategy aimed at harmonising pay for similar positions across the three arms government. Furthermore, the strategy envisages a review of public pensions, enhancement of the Public Service Performance Management System and the creation of a public service credit union.

The Government has increased the property transfer tax rate to 10 per cent. and increased excise duty on airtime from 10 to 15 per cent. In addition, the Government has revoked the statutory instrument suspending excise duty on clear beer.

The Government continues to be committed to enhancing the welfare of the citizens, particularly workers, and has increased the current exempt threshold of PAYE by more than 36 per cent. from K2,200.0 to K3,000.0 per month. The Government also intends to revise the Public Service Pension Fund, in particular the retirement age and the basis for calculating pensionable emoluments.

The Budget Process

In accordance with the Constitution, the Minister of Finance presents the budget to Parliament for the ensuing year not later than the second Friday of October in the current year. The budget preparation process is anchored on the national plan which is itself based on Vision 2030. The MTEF is a three year rolling plan drawn from the national five year plans and sets the base for preparation of the budget. The current national plan is the SNDP covering the period 2011 to 2015. The Government is currently revising the national plan to cover the period 2014 to 2016 and to include the new priorities of the current Government, namely the reduction of poverty and inequality and the creation of more jobs.

The preparation of the budget is a multiple stage process. The first step is the preparation of Consultation Paper and Submission to Cabinet in order to seek guidance from the cabinet on the developmental focus for the budget over the medium term. The developments of the macroeconomic and fiscal frameworks follow to define the parameters for budget and the MTEF.

Based on the macroeconomic and fiscal frameworks, a Green Paper is prepared which outlines Government's intentions within existing budget constraints. Once approved by Cabinet, the Green Paper is also used for consultations with various key stakeholders including Parliament, Non-Governmental Organizations, cooperating partners and the general public. The Budget Guidelines (Call Circular) guide Ministries, Provinces and Spending Agencies (the "**MPSAs**") on how to prepare their budgets as well as provide the indicative ceilings in which a budget for an MPSA should be prepared. Afterwards, the discussions of the MPSA budgets follow after which the budget is consolidated and submitted to Cabinet for approval. Once approved, the Minister of Finance presents the budget in Parliament.

The execution of the budget is over a period of one year from 1st January to 31 December and only occurs after Parliament has debated and approved the budget. The national budget covers only the central Government which includes the MPSAs. With respect to local authorities, only the transfers from the Government to the local authorities are included in the budget. Revenues generated by the local authorities that are paid to the central Government, such as property taxes, are excluded from the budget. The local authorities are, however, required by law to submit their budgets to the Minister of Local Government for approval.

The tables below set out certain information regarding Government operations for the periods indicated:

	Year ended 31 December					
	2009	**2010**	**2011**	**2012**	**2013**	**2014 Budget**
			(*Kwacha thousands*)			
I. REVENUE AND GRANTS	**12,182,200**	**15,198,500**	**20.233,017**	**23,134,577**	**25,551,162**	**32,165,168**
I. REVENUE	**10,315,100**	**13,809.100**	**19,518.962**	**22,372,253**	**24,532,277**	**29,538,540**
Tax revenue	**9,660,800**	**13,112,100**	**18,885,911**	**20,719,081**	**23,082,572**	**26,642,840**
Income Tax	**5,072,600**	**7.326,300**	**9,770,056**	**11,733,872**	**11,574,501**	**12,966,386**
CIT	1,375,800	-	3,643,591	4,402,218	2,853,760	
Non Mining	974,600	-	1,169,800	2,610,280	1,770,866	
Mining	401,200	-	2,473,849	1,791,938	1,082,894	1,823,366
PAYE	2,923,900	-	4.522,417	4,934,101	5,682,243	
Withholding/Other Income Taxes	538,000	-	736,023	938,910	1,277,771	
Mineral Royalty	234,900	-	868,024	1,458,643	1,760,727	
Mining Arrears		-	1,752,650		-	-
Value Added Tax	**2,475,500**	**3,159,500**	**3,973,046**		**7,347,964**	**8,099,061**
Domestic VAT	307,100	515,000	(39,636)	(279,227)	1,198,305	81,376
Import VAT	2,168,400	2,644,500	4,012,682	5,022,320	6,149,659	8,017,685
Customs and Excise Duties	**2,112,700**	**2,626,300**	**3.390,159**	**4,242,117**	**4,160,107**	**5,577,394**
Customs Duty	1,088,800	1,249,600	1,725,436	2,040,627	1,808,438	2,330,875
Excise Duty	1,023,900	1,376,700	1,664,723	2,201,490	2,351,670	3,246,518
Non Tax	**654,300**	**697,000**	**633,051**	**1,653,172**	**1,449,705**	**2,895,700**
2. GRANTS	**1,867,100**	**1,389,400**	**714.055**	**762,324**	**1,296,826**	**2,626,628**
Programme Grants (including SBS)	1,194,100	1,008,400	667,468	762,324	370,355	1,083,864
Project Grants (including SWAPs)	673,000	381.000	46,587		648,530	1,542,764
TOTAL EXPENDITURES	**13,847,500**	**17,634,400**	**22,385,899**	**26,152,220**	**33,790,129**	**41,285,749**
CURRENT EXPENDITURES	**11,556,900**	**15,051,200**	**18,364,527**	**21,092,684**	**25,922,112**	**31,016,177**
Wages and Salaries	5,251,000	6,298,100	7,391,731	9,390,399	11,897,065	15,497,445
Public Service Retrenchment	23,200	5,000	10,000	2,500	-	-
Recurrent Departmental Charges (RDCs)	**2,656,900**	**3,035.500**	**4.099,900**	**4,340,830**	**4,443,412**	**5,901,245**
Constitutional and Electoral Reforms	49,000	220,400	520,707	71,067	28,010	-
Bye-Elections	10,400	14,800	10,747	13,581	64,774	4,000
State Functions/Public Affairs and Summits	781,000	101,600	124,412	84,262	144,436	65,270
Award and Compensations (Court Decision)	173,100	138,500	189,636	211,371	158,906	100,000
Other RDCs/1	1,992,800	2,131,300	3,251.400	3,960,549	4,047,286	5,731,975
Transfers and Pensions	**1,983,200**	**1,958,200**	**3,532,000**	**3,574,762**	**6,175,887**	**4,902,047**
Pension Fund and Other Social Benefits	253.500	159,600	962.432	826,193	703,898	966,126
Fertilizer Support Programme	565,100	591,300	895,392	840,402	1,122,467	500,000
Input Pack	10,200	9,000	15,000	25,000	28,772	50,000
Road Fund	51,300	81,100	91,902		-	196,293
ZRA	210,900	226,200	266,625	386,509	486,661	378,801
Other Transfers	686,400	777,200	1,072,000	1,496,658	3,834,089	2,810,827
Interest Payments	**1,032,600**	**1,370,200**	**1,082,057**	**1,747,871**	**1,873,890**	**3,276,579**
Domestic Interest	974.600	1,280,300	1,013,000	1,636,236	1,512,781	2,250,497
External Debt Interest	58,000	89,900	69,057	111,635	361,110	1,026,082
Other Current Expenditures	**610,000**	**2,384,200**	**2,248,839**	**2,036,322**	**1,531,858**	**1,438,861**
Financial Restructuring	105,300	917,000	195,000	1,239,745	-	-
Strategic Food Reserve	208,500	1,205,900	1,674,000	300,000	1,111,189	1,013,331
Contingency	18,700	7,400	18,839	35,200	-	50,000
Liabilities	277,500	253,900	361,000	461,377	420,669	375,530
ASSETS	**2,290,600**	**2,583,200**	**4,021,372**	**5,059,536**	**7,868,017**	**10,269,571**
Non-Financial Assets	**2,216,700**	**2,511,700**	**3,902,372**	**4,957,071**	**7,594,683**	**9,190,137**
GRZ Road Fund	776,600	1,066,900	2,176,372	999,694	3,611,530	2,900,500
Fuel Levy	477,300	533,500	605,799	1,013,594	-	-
Rural Electrification Fund	46.400	54,800	150,000	82,800	46,000	65,000
ZESCO Power rehabilitation				939,683		
Railway Line Rehabilitation						
Ordinary Capital	945,400	1,066,400	1,517.000	1,921,000	2,767,164	4,179,310
Foreign Financed Capital Programmes	448,300	323,600	59,000	300	1,169,989	2,045,327
Financial Assets	**73,900**	**71,500**	**119,000**	**102,465**	**273,334**	**1,079,435**
Change in Balance and Statistical Discrepancy	(22,000)	9.600	839,750	246,652	(34,247)	
Overall Balance	**(1,665,300)**	**(2,435,900)**	**(2,992,633)**	**2,770,991**	**(8,204,720)**	**(9,120,581)**
Financing	**1,643,300**	**2,445,500**	**2,992,633**	**2,770,991**	**8,204,720**	**9,120,581**
Domestic	**1,676,300**	**2,205,700**	**1,858,000**	**1,463,927**	**5,948,682**	**2,901,746**
External	**(33,000)**	**239.800**	**1,134,633**	**1,307,064**	**2,256,038**	**6,218,834**
Programme loans	158,800	331,300	1,234,000	1,821,198	2,139,868	5,500,000
Project Loans	18,800	53,200	1.851.621		865,979	1,515,120
Amortisation (Paid)	(210,600)	(144,700)	(99,367)	(514,133)	(749,809)	(796,285)
GDP	**64.615,600**	**77,666,600**	**93,332,500**	**106,015,200**	**120,780,153**	**139,113,000**

Source: Ministry of Finance

	Year ended 31 December					
	2009	2010	2011	2012	2013	2014 Budget
				(*% of GDP*)		
I REVENUE AND GRANTS	**18.9**	**19.6**	**21.7**	**21.8**	**21.2**	**23.1**
1. REVENUE	**16.0**	**17.8**	**20.9**	**21.1**	**20.3**	**21.2**
Tax Revenue	**15.0**	**16.9**	**20.2**	**19.5**	**19.1**	**19.2**
Income Tax	**7.9**	**9.4**	**10.5**	**11.1**	**9.6**	**9.3**
CIT	2.1	0.0	3.9	4.2	2.4	0.0
Non Mining	1.5	0.0	1.3	2.5	1.5	0.0
Mining	0.6	0.0	2.6	1.7	0.9	1.3
PAYE	4.5	0.0	4.8	4.7	4.7	0.0
Withholding/Other Income Taxes	0.8	0.0	0.8	0.9	1.1	0.0
Mineral Royalty	0.4	0.0	0.9	1.4	1.5	0.0
Mining Arrears	0.0	0.0	1.9	0.0	0.0	0.0
Value Added Tax	3.8	4.1	4.3	4.5	6.1	5.8
Domestic VAT	0.5	0.7	0.0	(0.3)	1.0	0.1
Import VAT	3.4	3.4	4.3	4.7	5.1	5.8
Customs arid Excise Duties	3.3	3.4	3.6	4.0	3.4	4.0
Customs Duty	1.7	1.6	1.8	1.9	1.5	1.7
Excise Duty	1.6	1.8	1.8	2.1	1.9	2.3
Non Tax	1.0	0.9	0.7	1.6	1.2	2.1
2. GRANTS	**2.9**	**1.8**	**0.8**	**0.7**	**0.8**	**1.9**
Programme Grants (including SBS)	1.8	1.3	0.7	0.7	0.3	0.8
Project Grants (including SWAPs)	1.0	0.5	0.0	0.0	0.5	1.1
TOTAL EXPENDITURES	**21.4**	**22.7**	**24.0**	**24.7**	**28.0**	**29.7**
CURRENT EXPENDITURES	**17.9**	**19.4**	**19 7**	**19.9**	**21.5**	**22.3**
Wages and Salaries	**8.1**	**8.1**	**7.9**	**8.9**	**9.9**	**11.1**
Public Service Retrenchment	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Recurrent departmental charges (RDCs)	**4.1**	**3.9**	**4.4**	**4.1**	**3.7**	**4.2**
Constitutional and Electoral Reforms	0.1	0.3	0.6	0.1	0.0	0.0
Bye-Elections	0.0	0.0	0.0	0.0	0.1	0.0
State Functions/Public Affairs and Summits	1.2	0.1	0.1	0.1	0.1	0.0
Award and Compensations (Court decision)	0.3	0.2	0.2	0.2	0.1	0.1
Other RDCs/1	3.1	2.7	3.5	3.7	3.4	4.1
Transfers and Pensions	**3.1**	**2.5**	**3.8**	**3.4**	**5.1**	**3.5**
Pension Fund and other Social Benefits	0.4	0.2	1.0	0.8	0.6	0.7
Fertilizer Support Programme	0.9	0.8	1.0	0.8	0.9	0.4
Input Pack	0.0	0.0	0.0	0.0	0.0	0.0
Road Fund	0.1	0.1	0.1	0.0	0.0	0.1
ZRA	0.3	0.3	0.3	0.4	0.4	0.3
Other Transfers	1.1	1.0	1.1	1.4	3.2	2.0
Interest Payments	**1.6**	**1.8**	**1.2**	**1.6**	**1.6**	**2.4**
Domestic Interest	1.5	1.6	1.1	1.5	1.3	1.6
External Debt Interest	0.1	0.1	0.1	0.1	0.3	0.7
Other Current Expenditures	**0.9**	**3.1**	**2.4**	**1.9**	**1.3**	**1.0**
Financial Restructuring	0.2	1.2	0.2	1.2	0.0	0.0
Strategic Food Reserve	0.3	1.6	1.8	0.3	0.9	0.7
Contingency	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	0.1	0.3	0.4	0.4	0.3	0.3
ASSETS	**3.5**	**3.3**	**4.3**	**4.8**	**6.5**	**7.4**
Non-Financial Assets	**3.4**	**3.2**	**4.2**	**4.7**	**6.3**	**6.6**
GRZ Road Fund	1.2	1.4	2.3	0.9	3.0	2.1
Fuel Levy	0.7	0.7	0.6	1.0	0.0	0.0
Rural Electrification Fund	0.1	0.1	0.2	0.1	0.0	0.0
ZESCO Power Rehabilitation				0.9		
Railway Line Rehabilitation				0.0		
Ordinary Capital	1.5	1.4	1.6	1.8	2.3	3.0
Foreign Financed Capital Programmes	0.7	0.4	0.1	0.0	1.0	1.5
Financial Assets	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**	**0.8**
Change in Balances and Statistical Discrepancy	0.0	0.0	0.9	0.2	0.0	0.0
Overall Balance	**(2.6)**	**(3.1)**	**(3.2)**	**(2.6)**	**(6.8)**	**(6.6)**
Financing	**2.5**	**3.1**	**3.2**	**2.6**	**6.8**	**6.6**
Domestic	**2.6**	**2.8**	**2.0**	**1.4**	**4.9**	**2.1**
External	**(0.1)**	**0.3**	**1.2**	**1.2**	**1.9**	**4.5**
Programme Loans	0.2	0.4	1.3	1.7	1.8	4.0
Project Loans	0.0	0.1	0.0	0.0	1.7	1.1
Amortisation (Paid)	**(0.3)**	**(0.2)**	**(0.1)**	**(0.5)**	**(0.6)**	**(0.6)**

Source: Ministry of Finance

Note: Line items do not necessarily sum to totals due to rounding and the omission of certain line items that contribute to such totals.

Taxation

Personal income tax in Zambia is levied on the total net income from a Zambian source. Profits on capital are not taxed. In line with the Citizen's Budget 2013, the Government has increased the untaxed amount of income per month by 10 per cent. from K2,000.0 to K2,200.0 (and subsequently increased to K3,000.0 in 2014 budget). All individuals are taxed on income at progressive marginal rates over a series of income brackets, ranging from nil to 35 per cent. on income above K5,900 per annum. The Government has removed the 15 per cent. withholding tax on interest earned by individuals from savings and deposit accounts. In 2013, the Government has also removed the one per cent. Medical Levy charged on interest earned on savings and deposit accounts, treasury bills, government bonds and other similar financial instruments.

Corporate income tax is based on certain income deemed to be from a Zambian source, such as interest earned on financial instruments. Tax is imposed on all receipts and accruals from a Zambian source, other than receipts or accruals of a capital nature. The taxable income of external companies is computed in the same way as for local companies. The current standard rate of corporate income tax is 35 per cent. This rate is applicable to manufacturing and other companies and banks registered under the Banking and Financial Services Act. In 2011, the Zambian Government abolished the 40 per cent. upper corporate tax rate for banks and banks are currently taxed at a flat rate of 35 per cent. For companies listed on the Lusaka Stock Exchange, the 35 per cent. rate is reduced by 2 per cent. in the first year of listing. For chemical manufacture or fertiliser companies and non-traditional exports the rate is 15 per cent. and 10 per cent. for farming businesses.

VAT applies to the supply of goods and services by taxable persons in Zambia and on the import of goods and services into the country. VAT is payable at the rate of 16 per cent. of the value of the goods and services supplied or imported. Certain items are eligible for a zero per cent. rate while others are exempt from VAT. Zero-rated supplies include export of goods from Zambia and Medical supplies and drugs. Exempt supplies include basic foods and agriculture products such as wheat, flour and bread, and basic services such as health, water and education. Customs duty has also been removed on selected pharmaceutical products.

The royalty tax for companies extracting base metals, including copper, has been increased to 6 per cent. compared with 3 per cent. in 2011, and for companies extracting precious metals has been increased to 6 per cent. from 5 per cent. in 2011. Royalty tax is a form of resource rent which mining companies pay to the Government in return for the licence to extract minerals. The tax is computed on the gross value of the metals produced under the relevant licence. There is a 10 per cent. tax on the sale or transfer of a mining right. The capital expenditure deduction rate applicable in the mining sector has been reduced to 25 per cent. from 100 per cent. In November 2013, the Government reinstated a 10 per cent. export duty on semi-processed base metals, including copper. The Government also intends to implement a 15 per cent. import duty on semi-processed copper products. Furthermore, pursuant to SI 6 the Government has strengthened the reporting requirements for mining companies in an effort to ensure that mining production is fully taxed, which, if successful, may result in additional tax revenue. In addition, in 2013 the Government continued to implement SI 34 which made it mandatory for mining rights holders to submit detailed annual reports and programmes of operation for the subsequent years.

From 1 January 2014, the property transfer tax rate has been increased from 5 per cent. to 10 per cent.

Tax Incentives

The granting of tax incentives in Zambia has mainly been driven by the need to attract FDI and diversify the economy away from dependence on copper mining. Generally, tax incentives have included reduced corporate tax rates, tax holidays, investment allowances, accelerated depreciation and suspension of import duties. Following the privatisation of public enterprises beginning in 1991, the Government offered tax incentives to promote private investment. Incentives were provided under the Investment Act of 1993, the Export Development Act of 1994, Small Enterprise Development Act of 1996 and Export Processing Zones Act of 2001. In 2006, all the above Acts were repealed and replaced by the Zambia Development Agency Act of 2006 (the "**ZDA Act**"). Incentives under the ZDA Act provided investment incentives in the MFEZs. Sectors that have been particularly targeted include food processing, floriculture, horticulture, cotton processing, cotton yarn production, tourism and manufacturing of copper and iron products. Incentives under the ZDA Act include: a zero per cent. corporate tax rate for five years; a zero per cent. tax rate on dividends for five years; a zero per cent. tax rate on dividends from companies engaged in the assembly of motor vehicles, motor cycles and bicycles for a period of five years from the first dividend declaration; a

100 per cent. deduction (improvement allowance) for commercial and industrial buildings; a suspension of import duties on certain machinery, equipment and capital goods; and an exemption from income tax for the first five years for small enterprises operating in rural areas. The Government has begun reviewing its current tax incentive regime with the view of significantly reducing the exemptions and concessions currently available in order to increase domestic revenue. From January 2014, incentives under import duty exemptions are no longer granted to new licence holders. The incentives are still however available to licence holders in Multi-Facility Economic Zones, Industrial Parks and business enterprises in rural areas.

Compensation and Awards Fund

In its budget each year, the Government assesses its outstanding liabilities and sets aside funds to pay for claims made against the Government pursuant to final judgements against the Government by Zambian courts, including ex curia and consent judgements. The Ministry of Justice administers this fund and a claimant seeking compensation must make a claim for payment of the judgement sum and any interest to the Government through the Ministry of Justice.

Governance and Transparency

Since independence in 1964, Zambia has enjoyed political and economic stability. The Government, with assistance from both multi-lateral and bi-lateral cooperating partners, has worked towards deepening its democratic institutions, adopting a wide array of reforms and policies to transform the social fabric of the country, including increasing the accessibility of education, health care, housing, water resources, and other social services for the majority of population that were previously excluded.

In September 2011, the PF won national elections, marking the end of two decades of rule of MMD. The elections were considered by the international community to be transparent and fair. President Sata reiterated in the first Presidential address to the National Assembly that he will continue market-oriented policies, and that the Government will maintain prudent fiscal and monetary policy, enhance the diversification of the economy, provide a sharper focus on uplifting the poorest in society and further devolve power to local authorities. See "*Risk Factors–The Zambian Economy is largely dependent on copper production and global market prices for copper*". The Government anticipates that it will continue to play a role in the region through SADC and COMESA and continue to co-operate with the IMF, World Bank, the AfDB and other multi-lateral organisations.

In an effort to attract new investments and modernise the legal framework, the Government is in the process of reviewing the Companies Act Cap 388. The Government believes that the revised Companies Act will improve standards of corporate governance and will set clear rules and regulations on the incorporation of companies in Zambia.

According to the Global Competitiveness Index produced by the World Economic Forum in 2013, Zambia ranked 93rd out of 148 countries. Zambia ranked 118th out of 148 in terms of infrastructure, 81st in terms of macroeconomic environment, 46th in terms of financial market development, 51st in terms of institutions, 69th in terms of strength of investor protection, and 126th in terms of health and primary education. Infrastructure, health and primary education, higher education and training, and labour market efficiency still remain the areas which need improvement. The competitiveness studies confirm the IMF's conclusion that Zambia's primary concerns are low productivity levels, high cost of transport and factor inputs, inadequate transport infrastructure, and shortage of skilled labour.

In 2012 Zambia ranked 12th out of all African nations in the Ibrahim Index of African Governance (South Africa was fifth and Botswana was second), which measures the delivery of public goods and services to African citizens by government and non-state actors using indicators across four main categories: safety and rule of law, participation and human rights, sustainable economic opportunity and human development. In 2011 Zambia ranked 16th, and in 2010 it ranked 17th.

The World Bank's Doing Business 2014 report ranked Zambia 83rd out of 185 countries. In 2011, Zambia was named as one of the world's 10 most improved countries by this measure. Reforms to the requirements to operate a business are on-going to reduce the cost of doing business and improve competitiveness. Zambia compares favourably to other countries in the region in terms of starting a business, getting credit, paying taxes, and enforcing contracts. However, despite Zambia's scores being better than for the whole Sub-Saharan Africa region, areas such as resolving insolvency, protecting investors, and trading across borders need improvement. Furthermore, the World Bank recently reclassified Zambia as a lower middle-income country. As regards political stability, voice and accountability and rule of law, Zambia has scored higher than Sub-Saharan Africa averages according to the World Bank Governance Indicators 2011.

Zambia's Corrupt Practices Act No.14 was passed in 1980 and led to the establishment of the ACC as the country's authority against corruption. In 2012, the Anti-Corruption Act (No. 3 of 2012) was passed, repealing earlier legislation. The Act reinstates the criminalization of abuse of public office for corrupt purposes. The ACC is mandated to combat and prevent corruption through law enforcement, educating the public and enlisting their support against corruption, and providing advisory services. In 2011, the ACC received 345 complaints, of which 126 were authorised. As at September 2012, there were 54 active cases brought before the Legal and Prosecutions Directorate. At the end of 2011, ACC investigations resulted in 15 convictions, compared to 16 in 2010. Zambia has ratified the UN Convention against Corruption and Transparency International's Corruption Perception Index for 2012 ranked Zambia 88th out of 176 countries (with first place representing the least corrupt country), up from 91st out of 183 in 2011. The World Bank however stressed that Zambia's governance challenges need to be addressed.

Zambia is a member of the regional Eastern and Southern African Anti-Money Laundering Group. In 2001, the National Assembly passed the Prohibition and Prevention of Money Laundering Act and pursuant to the Act the Bank of Zambia issued Anti-Money Laundering Directives in 2004. In 2001, the National Assembly also passed Financial Intelligence Centre Act 38 of 2001 (the "**FIC Act**") and the Forfeiture of the Proceeds of Crime Act (No. 19 of 2010) in 2010. The FIC Act led to establishment in February 2002 of the Financial Intelligence Centre (the "**Centre**") in order to develop a strong legal basis to combat money laundering activities and the financing of terrorism, as well as to protect the financial system against money laundering activities and other financial crimes. The Centre has no authority to prosecute crimes. However, it is responsible for receiving, requesting, analysing and disseminating Suspicious Transaction Reports from financial and other institutions and ensuring that various institutions are not used as vehicles for illicit economic gain.

PUBLIC DEBT

Overview

Zambia has low external debt, primarily as a result of the Government's conservative approach following a significant reduction in borrowings under the HIPC initiative and MDRI of 2005 and 2006. These initiatives significantly improved Zambia's external debt sustainability, with the debt service to exports ratio falling to less than 3 per cent. in 2012 from 11 per cent. in 2005. General government debt has remained fairly stable at around 25 per cent. of nominal GDP since 2007. Zambia has moderate general government deficits however flexibility is constrained by high capital spending needs, a large public sector wage bill, agricultural subsidies and a narrow tax base. The Government's current debt strategy focuses on limiting non-concessional borrowing to economically productive investments. In 2013, the Government contracted 13 loans amounting to approximately US$1,249 million, largely to finance infrastructure projects, compared with debt repayments of approximately US$ US$160.8 million for the year. The Government's policy also seeks to improve and consolidate debt management by improving oversight procedures, and has agreed to share information with the IMF on any non-concessional loans.

Public Debt

Approximately 40 per cent. of general Government debt is foreign currency denominated. All foreign currency-denominated external debt is currently bi or multilateral. The Bank of Zambia holds 14 per cent. of local currency debt and approximately half is held by the domestic banking sector.

Domestic Public Debt

Zambia's domestic debt as a percentage of GDP declined from 20 per cent. in 2006 to approximately 16.3 per cent. of GDP in 2013. Domestic debt increased by 31 per cent. to 19.74 billion in 2013 from K15.07 billion in 2012. Out of the total domestic debt stock, government securities accounted for the largest share at 96 per cent. and increased by 31.5 per cent. to K18.88 billion in 2013 from K14.36 billion in 2012. Domestic arrears marginally increased by 0.5 per cent. to K486.1 million from K483.5 million in 2012. Pension arrears increased by 88 per cent to K125.65 million. The stock awards and compensation increased by 52.3 per cent. to K862.6 million from K715.1 million in 2012. The increase in total domestic debt was largely accounted for by the rise in the stock of Government securities.

The Bank of Zambia as fiscal agent of the Government of the Republic of Zambia issues government securities on behalf of the Government. Currently, government securities issued include Treasury bills and government bonds. Such government securities are issued on competitive and non-competitive basis. In competitive tenders, successful participants are allocated securities at the prices quoted while in non-competitive placements, participants are allocated securities at a pre-determined price. Commercial banks, non-bank financial institutions and individuals are all eligible to participate in the primary auctions of Treasury bills and government bonds. The minimum bid amount is thirty million Kwacha face value and thereafter in multiples of five million Kwacha. The Bank of Zambia reserves the right to change the number of bids and minimum amount required and multiples, as and when deemed necessary and advance notice if provided. The Bank of Zambia maintains and processes all Treasury bills and government bonds transactions through the book entry system, which is the Central Securities Depository. All Treasury bills and government bonds records are stored and processed electronically and no physical certificates are issued for any Treasury bills or government bonds purchased. Currently, the Government issues Treasury bills in four maturity categories being 91 days, 182 days, 273 days and 364 days while government bonds are issued in six maturities categories, that is, 2-, 3-, 5-, 7-, 10- and 15- year tenors.

The following table sets out certain information regarding Zambia's domestic public debt for the periods indicated:

	Year ended 31 December					
	2008	2009	2010	2011	2012	2013
			(*Kwacha millions*)			
Treasury Bills						
91 Days	132.8	270.5	286.1	178.1	128.6	113.2
182 Days	252.3	464.9	498.0	506.3	811.4	1,581.7
273 Days	361.3	558.7	734.4	1,101.0	1,468.6	2,027.1
364 Days	2,534.0	3,130.2	3,003.0	4,613.0	4,432.2	6,220.9
Total Treasury Bills	**3,280.4**	**4,424.3**	**4,521.5**	**6,398.4**	**6,840.8**	**9,942.9**
Bonds						
2 Years	590.8	625.9	659.3	977.3	947.5	608.1
3 Years	1,019.6	923.7	980.7	1,280.9	1,482.0	1,969.5
4 Years	84.4	84.4	0.0	0.0	0.0	
5 Years	1,574.6	1,922.8	2,102.0	2,662.9	2,972.6	3601.8
7 Years	121.2	141.2	224.6	272.9	433.5	671.0
10 Years	139.1	152.8	213.4	255.9	360.5	705.5
15 Years	90.8	106.1	138.6	153.4	172.8	262.2
>10 Years	1,121.0	1,121.0	1,121.0	1,120.9	1121.0	1121.0
Total Bonds	**4,741.5**	**5,077.9**	**5,439.6**	**6,724.2**	**7,516.9**	**8,939.1**
Total Securities	**8,021.9**	**9,502.2**	**9,961.0**	**13,122.6**	**14,357.7**	**18,882.0**
Total Domestic Arrears	**179.9**	**219.5**	**232.8**	**521.0**	**483.5**	**486.1**
Public Service Pension Fund	**149.6**	**66.2**	**94.4**	**78.1**	**66.9**	**125.6**
Awards and Compensation	**143.3**	**553.2**	**579.2**	**453.5**	**164.7**	**250.8**
Total Domestic Public Debt	**8,494.7**	**10,341.1**	**10,867.5**	**14,175.2**	**15,072.8**	**19,744.6**

Source: Ministry of Finance and the Bank of Zambia.

(1) 2010 figures revised after 2012 Debt Sustainability Analysis.

External Public Debt

According to preliminary data, in 2013 external debt increased by 10.5 per cent. to US$3.51 billion from US$3.18 billion in 2012. The increase was primarily a result of a rise in supplier's credit by 59.9 per cent., the majority of which were net disbursements from Exim Bank China. Multilateral loans continued to represent the largest proportion of external debt at US$1.45 billion. Following the attainment of lower middle income status, Zambia's access to concessional funding from international financial institutions such as World Bank and IMF has been reduced. This has resulted in an increase in non- concessional borrowing since 2011. In 2013, the Government has contracted new loans amounting to US$1.25 billion for, among others, the agriculture Productivity Programme for Southern Africa, Rehabilitation of Urban Roads, the upgrading of the Mbala-Nakonde Road and the Mansa-Luwingu Road.

Similar to other emerging market countries in Africa and elsewhere, economic difficulties during the 1970s and 1980s resulted in the accumulation of significant debt, with external debt equal to 92.6 per cent. of GDP in 2004 prior to the HIPC and MDR initiatives. During this period, Zambia accumulated significant debt service arrears on its external indebtedness, which in turn led to defaults on certain of its obligations as a result. The vast majority of these arrears were either forgiven, restructured or repaid under international aid programmes such as the framework agreements with the Paris Club and multilateral creditors in the 1990s and the HIPC and MDRI initiatives in which Zambia took part in 2005 and 2006. Pursuant to the HIPC and MDRI initiatives, US$2.3 billion of Zambia's Paris Club, US$3.4 billion of Zambia's multilateral debt and US$75.4 million of Zambia's non-Paris Club debt was forgiven, resulting in a total of US$5.8 billion in debt relief.

Brazil (who was only an observer to the HIPC negotiations) and certain other countries that were not members of the Paris Club did not participate in the 2005 and 2006 HIPC and MDRI initiatives.

Pursuant to Article III-2 of the Agreed Minutes of the Paris Club, Zambia was obligated to seek similar relief from its other national creditors on similar terms and entered into negotiations with Brazil and the other non-Paris Club creditors (including Iraq) on this basis. Zambia engaged in negotiations with the remaining creditors and ultimately concluded an agreement with all of them except Brazil and Iraq pursuant to which Zambia's debts to those creditors were repaid, forgiven or otherwise settled.

While Zambia has negotiated agreements with Brazil and Iraq for the partial forgiveness of Zambia's outstanding debts, Brazil and Iraq have not yet ratified these agreements. The agreements provide that debts owed by Zambia to Brazil of US$112 million will be reduced by 80 per cent. and debts owed by Zambia to Iraq of US$157 million will be reduced by 90 per cent. Until these agreements are ratified by Brazil and Iraq, respectively, however, these debts remain in default. Zambia believes that there is no expectation that such debts owed to Brazil and Iraq be repaid in full. In anticipation of the ratification of the agreement with Brazil later this year, Zambia has budgeted approximately US$14.9 million to meet its expected 2012 payment obligations under such agreement. The agreement with Iraq was concluded in May 2012 and it awaits approval by Iraq's parliament. Zambia has budgeted US$15 million in 2014 budget in anticipation of its expected payment obligations under the agreement.

The following table sets out certain information regarding Zambia's external public debt for the periods indicated:

	Year ended 31 December					
	2008	2009	2010	2011	2012	2013
			(US$ million)			
Multilateral	751.81	1,114.36	1,198.41	1,280.70	1,382.80	1,452.73
ADB/ADF	121.22	170.79	222.24	215.20	247.00	282.39
World Bank (IDA)	352.03	406.64	430.36	484.40	564.10	609.51
IMF	95.51	344.78	366.18	416.50	405.60	387.86
Others	183.05	192.15	179.63	164.60	166.10	172.97
Bilateral	293.16	293.21	298.57	250.70	239.00	183.75
Paris Club	218.29	219.08	224.56	180.00	169.80	122.08
Non-Paris Club	74.87	74.13	74.01	70.70	69.20	61.67
Suppliers Credit	143.58	136.95	269.18	448.70	565.80	904.96
Commercial Debt					992.20	971.49
DBSA					242.20	221.49
Euro Bond	-	-	-		750.00	750.00
Total Govt. External Debt	**1,188.55**	**1,544.52**	**1,766.16**	**1,980.10**	**3,179.80**	**3,512.93**
Total External Public Debt as % of GDP	**10.55**	**11.14**	**10.93**	**10.3**	**15.4**	**15.0**

Source: Ministry of Finance.

Pursuant to Statutory Instrument No. 116 of 2013, The Loans and Guarantees (Authorisation) (Maximum Amounts) Order 2013, the Government is prohibited from borrowing in excess of 35 billion Kwacha, which limit applies to the cumulative external debt of Zambia.

External Public Debt Service

In 2013, external debt service decreased by 45.8 per cent. to US$160.8 million from US$296.6 million in 2012. Out of the total debt service principal payments amounted to US$97.7 million and interest payments amounted to US$63.1 million. The decrease in debt service was largely a result of the repayment of a commercial loan in 2012 relating to road infrastructure.

The following table sets out certain information regarding Zambia's external public debt service for the periods indicated:

	2013	2014	2015	2016	2017	2018	2019
				(US$)			
Principal	52,320,649.07	76,447,225.63	81,948,720.41	112,154,028.08	91,023,082.77	92,512,068.30	96,909,663.82
Interest	61,549,015.45	77,074,395.83	75,189,396.18	73,209,220.53	70,744,530.47	68,679,150.54	66,583,391.21
Total	**113,869,664.52**	**153,521,621.46**	**157,138,116.59**	**185,363,248.61**	**161,767,613.24**	**161,191,218.83**	**163,493,055.03**

Source: Ministry of Finance.

Guarantees

In addition to the Government's direct debt obligations under its existing external debt, the Government has guaranteed the following non-concessional loans as at the date hereof:

Creditor	Purpose	Maturity Date	Amount
European Investment Bank	Rehabilitation and upgrade of two generating units at Kariba North Bank Power Station	31 March 2023	EUR7,600,000.00
Development Bank of Southern Africa	Construction of 360 MW hydroelectric power plant as extension to the existing Kariba North Bank Power Station	31 September 2024	USD105,500,000.00
Zanaco	Construction of selected distribution lines and substations	70 months from presentation of last invoice approximately November 2018	USD80,000,000.00
Industrial and Commercial Bank of China Limited	Construction of Pensulo-Kasama and Pensulo-Msoro-Chipapta 330kV power transmission lines	31 January 2028	USD285,000,000.00

Source: Ministry of Finance.

Non-debt Liabilities

Prior to the suspension of the Exchange Control Act of 1965 (the "**Foreign Exchange Act**") in 1994, commercial entities and individuals seeking to exchange Kwacha for foreign currencies were required to deposit funds denominated in Kwacha with the Bank of Zambia through commercial banks and to await the availability of the desired foreign currency at a fixed exchange rate. Prior to October 1985, the Zambian Government was unable to secure sufficient foreign currency to complete all the foreign currency transactions under the Foreign Exchange Act and accumulated external arrears as a result. Such arrears were owed to both foreign commercial entities and individuals. When the Foreign Exchange Act was suspended in 1994, efforts were made to settle the outstanding arrears. Donor countries in conjunction with the World Bank provided a US$25 million grant to Zambia to help undertake a buy-back scheme pursuant to which holders of eligible claims were invited to submit such claims to the Bank of Zambia for verification and settlement. As a result of this buy-back scheme, eligible debt totalling US$199.7 million was cancelled. However, not all holders of claims participated in the buy-back scheme and the scheme did not cover individual claims or commercial claims for less than US$5,000, leaving approximately US$170 million outstanding following the buy-back scheme which remains unsettled. However, the Government believes that the statute of limitations has expired with respect to any such any outstanding claims and that therefore no amounts are lawfully due to the holders of any such claims.

Relationships with International Financial Institutions

IMF

Zambia is on the IMF's standard 12 month Article IV consultation cycle and the most recent consultation was published in January 2014. The IMF commended Zambia for strong macroeconomic performance in recent years, reflecting sound macroeconomic management. The IMF's Executive Board predicted that economic growth would remain strong, however it noted that the current fiscal stance is unsustainable and stressed the need for fundamental reforms to contain the public wage increases and recurrent expenditures, increase domestic revenue, and create fiscal space for infrastructure investment. Furthermore, the IMF noted that a higher than planned fiscal deficit could lead to a substantial accumulation of arrears and result in central bank financing of the budget. The IMF stressed that the uncertainties about fiscal policy and the broader business environment pose medium-term risks to growth and inflation. The IMF noted that the external and internal debt remained relatively low and the Republic's risk of external debt distress is low. However, the IMF stressed that there exist risks related to uncertainties in the global economic outlook and possible slowdown in emerging markets and its impact on copper prices. Currently, the IMF is providing technical assistance to Zambia in a variety of policy areas, including programme budgeting, financial stability, mining taxation and rationalization of tax preferences.

World Bank

Zambia commenced its cooperation with the World Bank in 1955, before attaining its independence. The World Bank has been offering support with the country's development projects including mining, infrastructure and health. The World Bank has also assisted Zambia with introduction of legislation on agricultural marketing, strengthening government capacity and reducing the cost of doing business in Zambia. Finally, Zambia also benefits from the analytical and advisory assistance. The purpose of the technical assistance is to help Zambia improve its policy environment and accelerate its development efforts.

The World Bank provided Zambia assistance on HIV/AIDS as its first cooperating partner; the grant provided in 2003 amounted to US$42 million.

The World Bank is one of nine cooperating partners to provide direct budget support to the Government of Zambia to help fund the Government's Poverty Reduction Strategy through the SNDP. The World Bank provided a total of US$2.7 billion in debt relief to Zambia in 2005 and 2006 under the HIPC and MDRIs. In addition, since 2005 the World Bank has provided two budget support credits totalling US$50 million supporting government reforms. The reforms comprised the FSDP, civil service pension system, sale of Zambia National Commercial Bank, reform of the public sector, pension and macroeconomic management, in particular the creation of credit reference bureau.

The World Bank is engaged in 10 projects funded by loans or grants in Zambia. These include the Phase One and Two Road Rehabilitation and Maintenance Project with a total net commitment of US$165 million, the Zambia Malaria Booster Project with a commitment of US$50 million and the Irrigation and Development Support Project with an estimated total cost of US$115 million. Approved World Bank projects in Zambia have a net committed amount of US$665 million if fully disbursed.

African Development Bank Group

As at the end of March 2013, the AfDB's portfolio of approved and on-going projects and programmes in Zambia consisted of 13 projects (3 multinational and 10 national projects) with a total commitment of US$380 million. These projects include three private sector operations and a private sector capacity building programme. In addition, the AfDB has continued to support studies and knowledge building efforts in a number of areas. The overall disbursement ratio increased from 12 per cent. in 2010 to 25 per cent. in 2011, reflecting the intensified efforts towards improved project implementation. The AfDB anticipates the results and impact from the on-going activities will greatly support Zambia's growth efforts.

Additionally, the AfDB is in the process of deepening its decentralisation efforts in order to support the activities in Zambia. Towards this end, a Regional Resource Centre has been opened in Pretoria, South Africa, to support the AfDB's programmes in the Southern Africa Region. That office will complement and support the work that the Zambia Field Office is already leading, in ensuring enhanced policy dialogue and sustained results from AfDB interventions.

MONETARY SYSTEM

Monetary Policy

The Bank of Zambia is the central bank of Zambia and responsible for the formulation and implementation of monetary policy. The Bank of Zambia maintains responsibilities usually performed by a central bank, such as issuing currency, managing the efficient operation of the foreign exchange system, acting as fiscal agent of the Government and regulating commercial banks.

Under the Bank of Zambia Act, the Bank of Zambia conducts monetary and supervisory activities independently of the Government. The Bank of Zambia cannot advance any funds to the Government except in special circumstances and on such terms and conditions as may be agreed between the Bank of Zambia and the ministry in question. The Bank of Zambia cannot extend credit to the Government which would exceed 15 per cent. of the ordinary revenue of Government in the previous financial year. However, inflation targets are set by the Government in consultation with the Bank of Zambia. The Bank of Zambia relies on open market operations to regulate liquidity in the market, primarily through the purchase and sale of short term deposits and repurchase agreements using Government securities. The auction of Government securities to finance Government operations also has an impact on the liquidity in the market.

The currency of Zambia is the Kwacha. The Bank of Zambia operates a floating exchange rate, relying on the interbank market to determine the value of local currency, with intervention in the foreign exchange market aimed at reducing volatility rather than targeting a specific level of the exchange rate. As a result of Zambia's significant exports of copper and the dominance of foreign exchange earnings from the mining sector, fluctuations in the price of copper have a significant impact on the exchange rate.

The Bank of Zambia is continuing to pursue a growth-enhancing monetary policy, focusing on reducing inflation and maintaining adequate levels of liquidity. Inflation rates are strongly influenced by food inflation, with food items accounting for a significant portion of the overall consumer price index. In April 2012, the Bank of Zambia replaced its monetary based monetary policy framework with an interest rate based framework and introduced the Bank of Zambia Policy Rate. This entailed a change of the operational target from reserve money to the overnight interbank rate. Under this new framework, the Bank of Zambia seeks to maintain the 30-day moving average interbank rate within a defined corridor of the Bank of Zambia Policy Rate. The inaugural Bank of Zambia Policy Rate was set at 9.0 per cent. with a corridor width of +/-200 basis points subject to periodic review. The Bank of Zambia maintained the interbank rate around the Policy Rate of 9.0 per cent. in 2012 and revised it to 9.25 per cent. in November 2012. The Policy Rate increased to 9.75 per cent. over the first half of 2013 in order to combat inflationary pressures largely caused by the removal of maize and fuel subsidies. To further address the inflationary pressures, the Monetary Policy Committee decided to raise the Bank of Zambia Policy Rate by 50 basis points to 10.25 per cent. from 9.75 per cent. for March 2014. On 28 March 2014 the Bank of Zambia further raised the Bank of Zambia Policy Rate from 10.25 per cent. to 12.00 per cent effective from April 2014. In the past, policy rates introduced by the Bank of Zambia have had a minimal impact on commercial banks' lending rates due to limited information on the borrowers' creditworthiness, high default rates, and a lack of competition, which has resulted in inaccurate reported lending levels.

In January 2013, the Bank of Zambia introduced a cap on the effective annual lending interest rates of 42.0 per cent. and 30.0 per cent. for the non-bank financial institutions designated as microfinance service providers and other non-bank financial institutions, respectively. This measure is expected to make borrowing from non-bank financial institutions more affordable and equitable, although there is some risk that the introduction of interest rate caps for both commercial banks and micro-finance institutions could restrict lending to small and medium enterprises, in particular for unsecured loans.

In June 2004, the Government approved a five-year FSDP which was granted a three-year extension until December 2012. The FSDP aimed to realise a stable, sound and market-based financial system that would support efficient resource mobilisation necessary for economic diversification and sustainable growth. To achieve this aim, in March 2013 the Government amended the Bank of Zambia Act enabling the Bank of Zambia to monitor balance of payments transactions and regulate charges in the financial sector. SI 32, issued on 29 April 2013, provides guidelines on how balance of payments transactions will be monitored.

The Government approved the Bank of Zambia's recommendation to rebase the Kwacha from 1 January 2013 with each unit of the currency under the new system equivalent to 1,000 units under the old system. During the six-month transition period (January – June 2013), the old and rebased currency ran simultaneously and prices were listed in both the rebased and existing currency. As of 30 September 2013, the Bank of Zambia estimated that 97% of all old notes had been removed from circulation. The cash exchange will continue until 31st December 2015.

According to the Bank of Zambia, the benefits of rebasing the currency include:

- facilitating easier business transactions (because of the use of smaller units of currency);
- simplifying accountancy by easing the expression of monetary values and thereby reducing the risk of mistakes;
- allows for the use of standard accounting record systems, rather than having to pay for systems customised for values in the billions and trillions of Kwacha;
- increases confidence in the currency;
- efficient payment systems and encouraging the use of mechanisms such as pay phones, vending machines, car parking metres and other related technology; and
- re-introduction of a culture of using coins which are more durable.

Furthermore, the rebasing would not affect:

- the value of the rebased currency and its purchasing power;
- the value of savings and other investments instruments; and
- the inflation rate.

Inflation

Zambia's rate of inflation has been in a downward trend, from 18 per cent. in 2004 to 7.3 per cent. in 2012. In 2013, annual inflation rate remained within single digits throughout the year, falling to 7.1 per cent.

The fluctuation in inflation was attributed to the fall in the food inflation rate. Annual food inflation slowed to 6.2 per cent. in 2013 from 8.4 per cent. in 2012. This reduction was attributed to an increase in supply of fresh vegetables and cereals following the harvest period in the third quarter of 2013. Non-food inflation rate, however, rose to 8.2 per cent. in December 2013 from 6.1 per cent. in December 2012. This rise was due to the fuel price increase during the second quarter of 2013 following Government's removal of the fuel subsidy, as well as increase in the public sector wage bill and the depreciation of Kwacha exchange rate.

The weighted average lending base rate and the average lending rate rose to 9.8 per cent. and 16.4 per cent. at 31 December 2013 from 8.8 per cent. and 16.1 per cent. as at 31 December 2012, respectively.

The Government expected inflation to slow to 6 per cent. by December 2013, however at end-December 2013 it stood at 7.1 per cent. This partly reflected the removal of fuel and some food subsidies that caused increases in the price of food and fuel.

The following table sets out the rate of inflation in Zambia for the periods indicated:

	2009		2010		2011		2012		2013	
	CPI(1)	**Annual**	**CPI**	**Annual**	**CPI**	**Annual**	**CPI**	**Annual**	**CPI**	**Annual**
January	1,773.0	16.0	1,942.4	9.6	2,117.9	9.0	118.8	6.4	127.1	7.0
February	1,785.0	14.0	1,959.3	9.8	2,136.2	9.0	119.1	6.0	127.3	6.9
March	1,789.9	13.1	1,972.2	10.2	2,154.1	9.2	120.8	6.4	128.8	6.6
April	1,813.7	14.3	1,981.0	9.2	2,154.9	8.8	121.6	6.5	129.6	6.5
May	1,828.0	14.7	1,994.0	9.1	2,171.0	8.9	122.1	6.6	130.7	7.0
June	1,847.9	14.4	1,992.0	7.8	2,171.0	9.0	122.2	6.7	131.1	7.3
July	1,856.5	14.0	2,012.4	8.4	2,193.6	9.0	123.1	6.2	132.0	7.3
August	1,877.4	14.3	2,031.3	8.2	2,200.3	8.3	124.1	6.4	132.9	7.1
September	1,879.9	13.0	2,024.7	7.7	2,203.5	8.8	124.7	6.6	133.4	7.0
October	1,890.8	12.3	2,028.8	7.3	2,205.4	8.7	124.8	6.8	133.4	6.9
November	1,905.1	11.5	2,040.4	7.1	2,205.7	8.1	125.0	6.9	133.8	7.0
December	1,923.5	9.9	2,075.5	7.9	2,226.0	7.2	126.1	7.3	135.1	7.1

	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Annual as at 31 December	16.6	9.9	7.9	7.2	7.3	7.1
Annual average	12.4	13.5	8.5	8.7	6.6	7.0

Source: Ministry of Finance
(1) Consumer Price Index

The following table sets out the annual inflation rates for food and non-food items in Zambia for the periods indicated:

	Food items		Non-food items	
	Index	**Annual Inflation Rate**	**Index**	**Annual Inflation Rate**
2012				
January	115.5	6.1	122.5	6.8
February	115.4	5.5	123.3	6.5
March	117.6	6.4	124.6	6.4
April	118.2	6.4	125.5	6.5
May	118.6	6.8	126.2	6.3
June	118.1	7.1	126.8	6.2
July	119.0	6.3	127.7	6.0
August	120.3	7.3	128.5	5.5
September	121.0	7.5	129.1	5.6
October	121.4	8.2	128.7	5.4
November	121.7	8.0	128.9	5.8
December	123.0	8.4	129.7	6.1
2013				
January	124.3	7.6	130.3	6.3
February	123.1	6.7	132.1	7.1
March	124.7	6.0	133.6	7.2
April	125.5	6.1	134.3	6.9
May	126.0	6.3	136.0	7.8
June	126.5	7.1	136.5	7.6
July	127.5	7.1	137.2	7.4
August	128.5	6.8	137.9	7.3
September	128.9	6.5	138.6	7.4
October	128.5	5.9	139.0	8.0
November	129.0	6.0	139.4	8.1
December	130.6	6.2	140.2	8.2
2014				
January	131.6	5.9	141.7	8.8
February	132.4	7.5	142.2	7.7

Source: Central Statistics Office.

In January 2012, the Central Statistical Office published a new Consumer Price Series which incorporated an improved methodology conforming to international best practice. The new series includes an expanded number of goods in the consumer price basket, the use of a geometric rather than an arithmetic mean, and the production of regional indices. On the basis of the new consumer price index, inflation in February 2014 was recorded at 7.6 per cent.

Foreign Assets

According to preliminary data, as at 31 December 2013, gross international reserves (including both encumbered and unencumbered balances) fell to US$2,683.8 million from US$3,044 million in December 2012. This translated into approximately 2.4 (preliminary) months of import cover compared to the 2013 target of 4 months.

Foreign Exchange

Over the last three years the performance of the exchange rate of the Kwacha against globally traded currencies including the Pound Sterling, Euro, US dollar, Swiss Franc and Japanese Yen has largely been driven by external shocks associated with the global financial crisis and the ensuing instability in global financial markets, particularly in Europe. In 2012, the Kwacha depreciated against the US dollar as a result of increased demand for foreign currency and the need to facilitate the importation of petroleum products and agricultural inputs. The Kwacha, however, appreciated against the Euro and the South African Rand. In 2013, the Kwacha depreciated against the US dollar, Pound Sterling and Euro, and appreciated against the South African Rand.

In 2013, the Kwacha depreciated by 4.9 per cent. against the US dollar to an annual average of K5.3914/US$ from K5.1415/US$ in 2012. Similarly, the Kwacha depreciated against the Pound Sterling and Euro by 3.6 per cent. and 8.3 per cent. to an annual average of K8.4408/£ and K7.1624/€, respectively. With regard to South African Rand, Kwacha appreciated by 10.7 per cent. to an average of K0.5596/ZAR. The depreciation of Kwacha was a result of policy uncertainty surrounding the implementation of SI 55 and economic developments in the European Union , China and USA. On 21 March 2014, the Minister of Finance announced the revocation of SI 55.

Supply and demand for foreign exchange increased in 2013. Supply to the market, denoted by commercial banks' purchases of foreign exchange from various sectors, increased to US$10,693.6 million from US$9,662.8 million in 2012. Similarly, the demand for foreign exchange, as reflected by commercial banks' sales to various sectors increased to US$9,419.6 million in 2013 compared with US$8,651.9 million in 2012. In this regard, commercial banks recorded net purchases of US$1,274 million compared with net purchases of US$1,010.8 million recorded in 2012.

SI 33, which came into effect in May 2012, prohibits the quoting and pricing of goods and services in foreign currencies. The Government intended SI 33 to strengthen the Kwacha and increase financial innovation in the Kwacha market. On 21 March 2014, the Minister of Finance announced the revocation of SI 33.

The Banking Sector

At the end of 2013, the banking sector in Zambia consisted of 19 commercial banks, of which 16 are foreign banks or institutions, two are local banks and one is jointly owned by the Zambian Government and the Indian Government. The Government has a 40 per cent. joint ownership interest in the Indo Zambia Bank Limited and a 25 per cent. interest in the publicly listed Zambia National Commercial Bank. At the end of 2013, the banking sector's total assets increased by 22.4 per cent. to K41,953 million compared to K34,276 million in 2012. Loans and advances grew by 14.5 per cent. to K17,884 million and represented the largest share of total assets in 2013.

At the end of 2013, commercial banks had a total of 314 branches and agencies in Zambia compared to 314 at the end of December 2012. The four largest banks operating in Zambia according to their total assets as of December 2013 were Zambia National Commercial Bank, Standard Chartered Bank, Barclays Bank and Stanbic Bank. These banks together accounted for approximately 61.5 per cent. and 61.7 per cent. of the banking sector's total assets and deposits, respectively. In 2012, the distribution of profit before tax by type of ownership indicated that subsidiaries of foreign banks accounted for the largest share of the sector's total profit before tax (64.1 per cent.), followed by banks with a Government stake (24.1 per cent.).

Lending to the private sector has recovered and exceeded pre crisis (2008-09) levels, and is expanding despite high base lending rates. While asset quality has improved following the crisis, the sharp increase in credit to the private sector in 2012 – especially personal loans, which increased from 29 per cent. of total credit as at end-December 2011 to 34.4 per cent. as at end 2012 – could lead to a deterioration in future.

In late 2011, the authorities lowered the upper corporate tax rate for banks by 5 percentage points, aligning the tax rate with the 35 per cent. paid by other non-agriculture firms. This measure was introduced to encourage banks to lower their base rates. The Government plans to create a more flexible monetary framework, improve the interbank market and the competitiveness between banks.

The Government also plans to recapitalise the Development Bank of Zambia to improve credit delivery to sectors usually underserved by the traditional commercial banks due to the lack of information on potential borrowers, the high transactions costs associated with non-performing loans ("**NPL**") and the high cost of doing business in Zambia. According to the IMF, access to financial services in Zambia still remains low compared to other African countries.

The following table sets out the Zambian banking sector's net assets, domestic credit and liabilities for the periods indicated:

	Year ended 31 December				
	2009	2010	2011	2012	2013
	(Kwacha thousands)				
Net Foreign Assets	**4,913,221**	**6,690,056**	**9,281,339**	**11,905,133**	**11,552,621**
Foreign assets (BOZ)	9,009,660	10,026,335	12,144,538	16,835,808	15,130,624
Foreign assets (banks)	2,804,304	3,806,111	4,966,464	3,669,241	4,979,073
Foreign liabilities (BOZ)	(5,278,161)	(5,385,297)	(6,115,586)	(6,155,382)	(6,609,930)
o/w: IMF	(5,012,960)	(5,357,253)	(6,081,612)	(6,116,756)	(6,551,771)
Foreign liabilities (banks)	(1,622,582)	(1,757,093)	(1,714,076)	(2,444,534)	(1,947,146)
Domestic assets	**8,883,460**	**11,226,254**	**12,523,215**	**13,793,630**	**19,489,593**
Domestic credit	**11,976,020**	**14,682,910**	**16,822,626**	**19,738,486**	**28,404,021**
Net Claims on General Government	3,963,133	5,548,360	5,200,086	3,242,147	10,335,161
Claims on government (BOZ)	3,562,835	4,602,542	4,186,576	3,703,657	5,417,134
Claims on government (banks)	4,257,055	4,947,777	7,703,177	8,227,575	11,527,661
Government deposits at BOZ	(2,437,181)	(2,369,291)	(4,404,956)	(5,854,756)	(2,883,252)
Government deposits at banks	(1,419,576)	(1,632,667)	(2,284,711)	(2,834,330)	(3,726,383)
Claims on public enterprises	208,491	115,266	98,704	693,512	235,678
Claims on public enterprises (BOZ)	–	–	–	–	–
Claims on public enterprises (banks)	208,491	115,266	98,704	693,512	235,678
Claims on private enterprises	4,891,765	5,449,469	7,096,591	9,328,166	10,176,223
Claims on private enterprises (BOZ)	3,978	5,212	(26,942)	1,187	15,183
Claims on private enterprises (banks)	4,887,787	5,444,258	7,123,533	9,326,979	10,161,040
Claims on households	2,537,473	3,003,136	3,736,981	5,761,574	6,877,459
Claims on households (BOZ)	38,633	37,614	36,917	40,001	42,669
Claims on households (banks)	2,498,840	2,965,521	3,700,064	5,721,573	6,834,791
Claims on nongovernment/nonprofit inst.	3,987	11,154	12,724	9,771	5,254
Claims on nongovernment/nonprofit inst. (BOZ)	–	–	–	–	–
Claims on nongovernment/nonprofit inst. (banks)	3,987	11,154	12,724	9,771	5,254
Claims on nonbank financial institutions	366,074	548,191	665,608	684,710	751,454
Claims on nonbank financial institutions (BOZ)	–	–	–	–	–
Claims on nonbank financial institutions (banks)	366,074	548,191	665,608	684,710	751,454
Other Items Net	**3,092,560**	**3,456,656**	**4,299,411**	**5,944,856**	**8,914,428**
Other items net	**(50,946)**	**101,127**	**(632,689)**	**640,206**	**691,721**
Claims on banks (BOZ)	(140,998)	(335,592)	(163,412)	(153,693)	(160,013)
Bankers deposits at BOZ	(2,728,049)	(4,492,867)	(2,228,280)	(4,394,757)	(5,384,064)
BOZ liabilities to banks	2,694,585	4,379,429	2,106,723	4,517,607	5,524,828
Credit from BOZ	55,590	219,229	24,887	45,257	78,450
Other items net (BOZ)	(273,537)	(342,459)	(647,254)	63,039	(71,186)
o/w: IMF	(3,412,956)	(3,465,122)	(3,842,033)	(3,864,235)	(4,139,054)
Other items net (banks)	341,464	673,386	274,648	562,753	703,705
Shares and Other Equity	599,234	447,201	872,832	283,383	(1,198,324)
Shares and Other Equity	1,965,140	2,316,658	2,841,264	4,040,551	(5,966,316)
Loans	532,175	544,715	944,343	933,746	(1,011,338)
Deposits excluded from broad money	46,730	46,730	46,730	46,730	(46,730)
Claims on State and Local government	5,096	7,333	11,930	18,606	22,792
Revaluation account	226	226	226,931	240	–
	–	–	–	–	–
Broad Money	**13,796,681**	**17,916,310**	**21,804,554**	**25,698,763**	**31,042,217**
Money	**4,992,607**	**7,081,983**	**8,344,641**	**11,251,999**	**13,079,219**
Currency outside banks	1,579,370	2,229,272	2,790,111	3,015,120	3,443,180
Demand deposits at BOZ	273	316	–	–	–
Demand deposits at banks	3,412,964	4,852,395	5,554,530	8,236,879	9,636,039
	–	–	–	–	–
Quasi-Money	**8,804,074**	**10,834,327**	**13,459,913**	**14,446,764**	**17,962,998**
Savings Deposits	2,516,324	2,892,833	3,517,211	5,083,584	5,667,221
Savings deposits at BOZ	21,128	20,299	19,284	20,534	23,516
Savings deposits at banks	2,495,196	2,872,534	3,497,927	5,063,050	5,643,705
Time deposits and other deposits	1,355,729	1,828,055	2,490,319	3,207,376	4,702,231
Time deposits	1,355,729	1,828,055	2,490,319	3,207,376	4,702,231
Acceptances payable	–	–	–	–	–
Foreign currency deposits	4,932,021	6,113,438	7,452,383	6,155,804	7,593,546
Foreign currency demand deposits	4,082,772	5,173,790	5,972,310	5,014,509	6,090,371
Foreign currency savings deposits	264,230	219,202	344,051	415,094	329,102
Foreign currency time deposits	585,019	720,447	1,136,022	726,201	1,174,073
Vertical check:	-	-	-	-	(3)

Source: Bank of Zambia.

Note: Line items do not necessarily sum to totals due to rounding and the omission of certain line items that contribute to such totals.

Profitability levels are increasing, as evidenced by current performance. In 2013, earning performance increased to an after tax profit of K872 million from K700.0 million in 2012. The increase was due to a proportionately higher increase in net operating income by K583 million compared to operating expenses by K482 million.

The banking's sector profitability, as measured by the return on assets and return on equity (measured on a 12 month moving average), has moderately decreased and as at the end of December 2013 stood at 3.4 per cent. and 18.3 per cent., respectively, compared to 3.9 per cent. and 20.8 per cent. at the end of December 2012. The reduction in ROE was due to a larger increase in total assets and equity than profits as banks worked towards meeting new minimum capital requirements by 31 December 2013.

The weighted average lending base rate and the average lending rate rose to 9.8 per cent. and 16.4 per cent. at 31 December 2013 from 8.8 per cent. and 16.1 per cent. as at 31 December 2012, respectively. In 2013, the average savings rate for amounts exceeding K100 declined to 3.6 per cent. from 4.3 per cent. in December 2012, and the 30-day deposit rate for amounts exceeding K20,000 remained unchanged at 5.3 per cent.

The following table sets out the overall financial performance and condition of the banking sector for the periods indicated:

Indicator (%)	**Dec-11**	**Dec-12**	**Dec-13**
Primary capital adequacy ratio	16.8	19.4	24.4
Total regulatory capital adequacy ratio	19.2	21.3	26.8
Net non-performing loans to regulatory capital	10.2	8.7	3.5
Gross non-performing loans to total loans	10.4	8.1	7.0
Net non-performing loans to total loans	2.4	2.1	1.1
Net non-performing loans to net loans	2.6	2.3	1.2
Provisions to non-performing loans	76.7	73.5	83.5
Earning assets to total assets	81.8	77.7	82.1
Net operating income to total assets	10.9	11.2	10.5
Non-interest expense to total assets	7.4	7.3	6.9
Provision for loan losses to total assets	0.1	0.4	0.5
Net interest income total assets	6.1	6.1	6.0
Return on assets	3.7	3.9	3.4
Return on equity	25.5	20.8	18.3
Efficiency ratio	68.1	65.5	65.9
Liquid assets to total assets	40.3	36.0	40.0
Liquid assets to deposits and short-term liabilities	48.6	44.4	50.6
Loan-to-deposit ratio	57.1	66.0	61.4

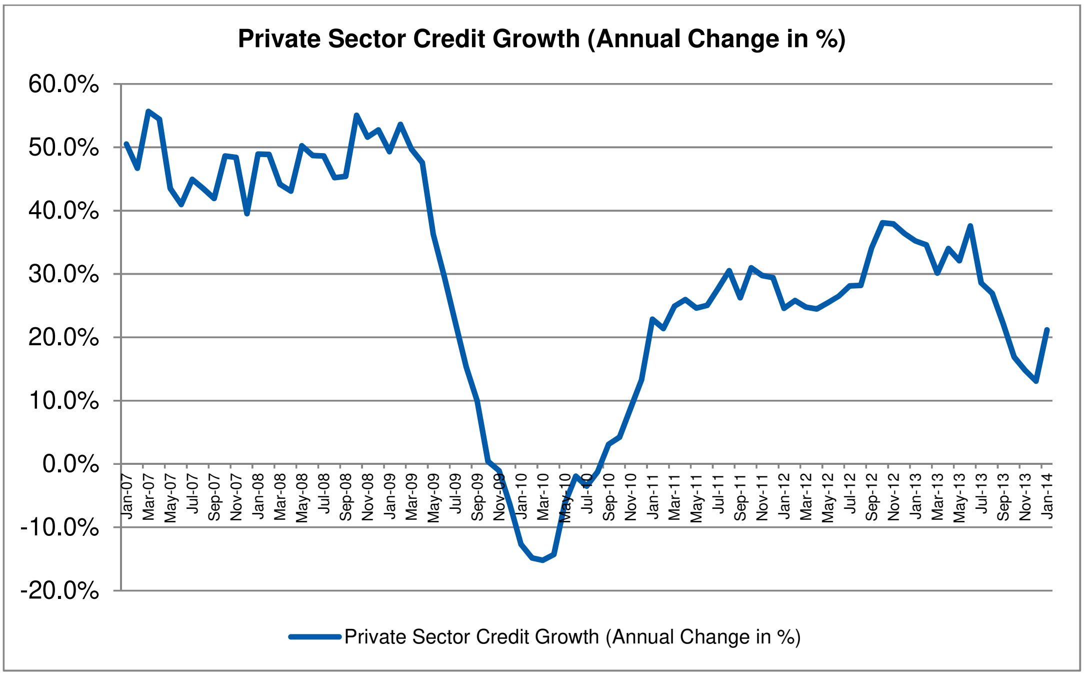
The following table sets out Zambian commercial bank interest rates for the periods indicated:

	2008		**2009**		**2010**		**2011**		**2012**		**2013**	
	Weighted Lending Base Rate	**Lending Rate**	**Weighted Lending Base Rate**	**Lending Rate**	**Weighted Lending Base Rate**	**Lending Rate**	**Weighted Lending Base Rate**	**Lending Rate**	**Weighted Lending Base Rate**	**Lending Rate**	**Weighted Lending Base Rate**	**Lending Rate**
						(monthly average)						
January	18.4	24.5	20.9	27.0	22.7	29.2	19.2	26.2	16.2	23.2	9.3	16.3
February	18.3	24.4	20.9	27.0	22.6	29.1	19.1	26.1	16.2	23.2	9.3	16.3
March	18.2	24.3	20.9	27.0	22.6	29.1	19.1	26.1	16.3	23.3	9.3	16.1
April	18.2	24.3	20.7	26.6	21.5	28.0	19.1	26.1	16.0	23.0	9.3	16.3
May	18.2	24.3	21.6	27.8	21.3	28.2	19.1	26.1	13.1	20.1	9.3	16.0
June	18.5	24.6	22.4	28.9	21.0	28.0	19.0	26.0	11.7	18.7	9.5	16.3
July	18.6	24.7	22.4	28.9	20.6	27.6	19.0	26.0	9.6	16.6	9.8	16.4
August	18.6	24.7	23.0	29.5	20.1	27.1	19.0	26.0	9.6	16.6	9.8	16.4
September	19.6	25.7	23.1	29.6	19.8	26.8	19.0	26.0	9.3	16.3	9.8	16.3
October	20.6	26.7	23.1	29.6	19.6	26.6	19.0	26.0	9.3	16.3	9.8	16.3
November	20.6	26.7	23.1	29.6	19.6	26.6	18.6	25.6	9.1	16.1	9.8	16.2
December	20.8	26.9	22.7	29.2	19.4	26.4	16.6	24.0	9.1	16.1	9.8	16.4

Source: Bank of Zambia.

In 2013, domestic credit grew by 43.9 per cent. In absolute terms, domestic credit increased to K28,404 billion as of 31 December 2013 from K19,738.5 billion as of 31 December 2012. This increase was largely due to an increase in credit to Government (218.8 per cent.) and lending to households and private enterprises (19.4 per cent. and 9.1 per cent. respectively). Credit to government held the largest share of outstanding credit and increased to 36.4 per cent. in 2013 compared to 16.4 per cent. in 2012. Credit to private enterprises and households decreased to 35.8 per cent. and 24.2 per cent. in 2013 compared to 47.3 per cent. and 29.2 per cent., respectively. Similarly, credit to non-bank financial institutions and public enterprises decreased in 2013 to 2.6 per cent and 0.8 per cent. from 3.5 per cent. and 3.5 per cent., respectively.

The following graph sets out private sector credit growth in Zambia for the periods indicated.



Source: Bank of Zambia.

Non-performing Loans

The banking sector recorded an improvement in asset quality in 2013. The gross NPL ratio (as defined in the table below) decreased to 7 per cent. at 31 December 2013 from 8.1 per cent. at 31 December 2012 as a result of improved risk management by banks. The net NPL ratio (as defined in the table below) also improved to 1.2 per cent. at 31 December 2013 from 2.3 per cent. at 31 December 2012.

In 2013, the allowance for loan losses against the NPLs increased by 11.1 per cent. to K1,099 million from K992 million at 31 December 2012. As a result of an increase in the allowance for loan losses and a decrease in NPLs, the NPL coverage ratio increased to 83.5 per cent. at 31 December 2013 from 73.5 per cent. at 31 December 2012 indicating an improvement in the banking sector's reserve for expected loan losses.

The following table sets out the gross NPLs ratio and the net NPLs ratio for the periods indicated:

	Year ended 31 December					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
			(%)			
Gross Non-Performing Loans Ratio(1).........	7.2	12.6	14.8	10.4	8.1	7.0
Net Non-Performing Loans Ratio(2)............	1.2	1.9	3.3	2.6	2.3	1.2

Source: Bank of Zambia.
(1) Gross NPLs are equal to the total number of NPLs in a bank's loan portfolio.
(2) Net NPLs reflect the provision against each relevant NPL so that net NPLs are equal to gross NPLs less the applicable provision.

Regulation

The legal and regulatory framework relating to regulation and supervision of banks in Zambia is mainly provided for under the Banking and Financial Services Act of 1994, as amended in 2005 (BFSA) together with its supporting regulations (Statutory Instruments and Circulars) and the Bank of Zambia Act. Other supporting legislation includes the Prohibition and Prevention of Money Laundering Act together with the Bank of Zambia Anti-Money Laundering Directives; the Financial Intelligence Centre Act; and the Forfeiture of Proceeds of Crimes Act. In addition, the Bank of Zambia has also issued Risk Management Guidelines and Corporate Governance Guidelines to provide minimum standards to be observed by commercial banks in the area of risk management and corporate governance. The Bank of Zambia has continued to revise these frameworks on an on-going basis to ensure that they address current challenges in the sector.

The Bank of Zambia is in the process of reviewing the BFSA in order to bring the BFSA in line with current developments in the financial sector and to harmonise BFSA with other financial sector laws. The Bank of Zambia believes that the revised BFSA will improve standards of corporate governance in the banking sector, will enhance consumer protection in the financial sector and will facilitate the implementation of Basel II and Basel III, as well as minimise the risk of bank distress.

The minimum capital requirement for banks has been increased from US$2.4 million to US$20 million, for majority domestically-owned banks, and to US$100 million, for majority foreign-owned banks, with effect from 1 January 2014. The target date for Zambian banks to be compliant with the regulatory capital requirements set out in the Basel II framework is 2014. To date, the majority of larger banks operating in Zambia are in compliance with capital requirements. According to the IMF data, the revised minimum capital requirements could prove challenging for a number of foreign-owned banks, and as a result certain foreign owned banks may consider conversion to local ownership in the future. Furthermore, higher capital requirements for foreign owned banks could encourage risky lending practices among locally owned banks with lower capital requirements or result in foreign banks selling their controlling stake to local banks.

In order to combat the inflationary pressures, the Bank of Zambia increased the statutory reserves ratio from 8 per cent to 14 per cent. with effect from 10 March 2014.

The following table sets out the return on assets and the return on equity for the periods indicated:

	Year ended 31 December					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
			(%)			
Return on Assets	3.3	2.0	2.3	3.7	3.9	3.4
Return on Equity	19.2	8.9	11.6	25.5	20.8	18.3

Source: Bank of Zambia.

The following table sets out the ratios of primary regulated capital to risk weighted assets and total regulated capital to risk weighted assets for the periods indicated:

	Year ended 31 December					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
			(%)			
Primary Regulated Capital/Risk Weighted Assets	15.7	18.9	19.9	16.8	19.4	24.4
Total Regulated Capital/Risk Weighted Assets	18.6	22.3	22.1	19.2	21.3	26.8

Source: Bank of Zambia.

Non-bank Financial Sector

As of December 2013, the non-bank financial sector in Zambia consisted of 7 leasing companies, 4 building societies, 1 development bank, 1 savings and credit bank, 1 Development Finance Institution, 64 Bureaux de Change, 1 credit reference bureau and 35 micro-finance institutions.

The insurance sector remains relatively small, however it is growing steadily. Under the Insurance Act insurance companies registered under Pension and Insurance Authority are required to separate their life and non-life insurance services. There are currently 15 registered insurance companies, namely ZSIC General Insurance Ltd, Professional Insurance Corporation Zabia Ltd, Madison General Insurance Company (Z) Ltd, Advantage Insurance Ltd, A-Plus General Insurance Company Ltd, Focus General Insurance Ltd, Goldman Insurance Ltd, Meanwood General Insurance Company Ltd, Phoenix of Zambia Assurance Company (2009) Ltd, African Grey Insurance Ltd, Diamond General Insurance Ltd, General Alliance Insurance (Z) Ltd, Hollard Insurance Zambia Ltd, Mayfair Insurance Company (Z) Ltd, and NICO Insurance Zambia Ltd. The Professional Insurance Corporation is the market leader in the non-life sector, whereas Madison Life dominates the life sector.

Capital Markets

The LuSE was established in 1993 with technical assistance from the International Finance Corporation and the World Bank. The LuSE started trading on the 21 February 1994 and has 22 listed companies. The LuSE comprises stock broking corporate members and is incorporated as a non-profit limited liability company. As at end 2013, the total market capitalisation rose by 17.3 per cent. to K58,188 million compared to K49,624.7 million in 2012. The LuSE All Share index also grew by 42.7 per cent. to 5,300 by end-December 2013 compared to 3,714.6 at end-December 2012. The increase in market capitalization is a result of the capital gains recorded by most stocks including ZCCM-IH, Zambeef Products, Zambia Sugar and National Breweries.

In January 2012, the Zambian SEC licensed a new exchange: Bonds and Derivatives Exchange Zambia Plc. The exchange has not yet started trading.

All companies listed on the LuSE are required to comply with relevant laws, including the Companies Act of the Laws of Zambia and the Securities Act of the Laws of Zambia. The LuSE is governed by the Securities Act (No.38) of 1993 Cap 354 of the Laws of Zambia. The implementation of the Zambian Securities Act is the role of the Zambian SEC. The Zambian SEC is made up of seven commissioners who are nominated by their respective organisations and then appointed by the Minister of Finance for a term of three years. The seven organisations represented at the Zambian SEC are the Zambia Institute of Chartered Accountants, the Law Association of Zambia, the Ministry of Justice, the Non-Governmental Organisations Coordinating Committee, the Lusaka Stock Exchange, the Bank of Zambia and the Zambia Council of Commerce and Industry.

In May 2012, the International Finance Corporation (the "**IFC**"), a member of the World Bank Group, launched a Pan-African Domestic Medium-Term Note Programme, which focuses on Botswana, Ghana, Kenya, Namibia, South Africa, Uganda, Rwanda and Zambia. The IFC received approval for a local currency bond programme in Zambia in July 2013 and can issue bonds of up to K2.5 billion. In September 2013, IFC issued a K150 million bond to support domestic capital markets and increase access to local currency finance in Zambia. The "Zambezi" bond is IFC's first kwacha denominated bond and the first placement by a non-resident issuer in Zambia.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Zambia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

The Republic of Zambia

Income Tax in Zambia is governed by the Income Tax Act, Cap 323 of the Laws of Zambia. Section 82A of the Income Tax Act provides that every person or partnership making a payment of interest and royalties from a source within or deemed to be within Zambia must deduct tax from such payment at the rate prescribed in the charging schedule. The charging schedule provides that the rate of tax payable on a payment of interest as described above is 15 per cent. The obligation to deduct tax as stated above applies even when the payee is outside Zambia. As a general rule therefore, a 15 per cent. income tax must be withheld by a person making a payment of interest. Withholding tax is not a tax but merely a method of collecting income tax on certain payments, including the payment of interest.

There are exemptions provided under the Income Tax Act on interest on certain payments. Under Clause 9(2)(a) of the Second Schedule to the Income Tax Act, interest on a public loan raised by the Government of the Republic of Zambia or a statutory corporation is exempted from withholding tax. However, this exemption only applies if the terms of the loan provide that the interest on such loan shall be exempt from tax. Furthermore, Clause 9(2)(b) of the same Second Schedule also provides that interest on any bond issued under or in respect of the loan of the Government or statutory corporation shall also be exempt from tax where the terms of the bond provide that the interest thereon shall be exempt from tax.

United States

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING US FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain US federal income tax considerations relevant to US Holders (as defined below) acquiring, holding and disposing of Notes. This summary addresses only the US federal income tax considerations for initial purchasers of Notes at their issue price (as defined below) that will hold the Notes as capital assets (generally, property held for investment). This summary is based on the US Internal Revenue Code of 1986 (the "**Code**"), final, temporary and proposed US Treasury regulations, administrative and judicial interpretations each as in effect on the date hereof. All of which are subject to change, possibly with retroactive effect. The "**issue price**" of a note is generally equal to the first price at which a substantial amount of notes are sold for money to investors (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

This summary does not discuss all aspects of US federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) certain financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass through entities, or persons that hold Notes through pass-through entities; (viii) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for US federal income tax purposes; (ix) investors that have a functional currency other than the US dollar and (x) US expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address US federal estate, gift or alternative minimum tax considerations, the Medicare surtax on unearned "net investment income", or non-US, state or local tax considerations.

For the purposes of this summary, a "**US Holder**" is a beneficial owner of Notes that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source or (iv) a trust that is subject to US tax on its worldwide income regardless of its source.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Payments of interest and original issue discount

The Notes may be treated as having been issued with original issue discount ("**OID**") for US federal income tax purposes. An obligation generally is treated as having been issued with OID if its "stated redemption price at maturity" exceeds its issue price, described above, by more than the "OID *de minimis* amount." The OID *de minimis* amount equals 1/4 of 1 per cent. of the debt instrument's stated redemption price at maturity multiplied by the number of complete years from its issue date to its maturity. The "stated redemption price at maturity" of a note is the sum of all payments required to be made on the note other than "**qualified stated interest**" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer), or that is treated as constructively received, at least annually at a single rate.

A US Holder is required to include qualified stated interest payments (including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes–Taxation*") in income as interest when such holder accrues or receives those payments (in accordance with such holder's accounting method for tax purposes). It is expected that the stated interest on the Notes will be treated as qualified stated interest. Therefore, stated interest paid to a US. Holder on a Note will be includible in such holder's gross income as ordinary interest income at the time it accrues or is received, in accordance with such holder's usual method of tax accounting. In addition, if the Notes are issued with OID, a US Holder will be required to include OID in income before such holder receives the associated cash payment, regardless of such holder's accounting method for tax purposes. The amount of the OID, if any, that a US Holder should include in income is the sum of the daily accruals of the OID for the Note for each day during the taxable year (or portion of the taxable year) in which such holder held the Note. The daily portion is determined by allocating the OID, if any, for each day of the accrual period. An accrual period may be of any length and the accrual periods may even vary in length over the term of the Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first day of an accrual period or on the final day of an accrual period. The amount of OID, if any, allocable to an accrual period is equal to the difference between (1) the product of the "**adjusted issue price**" of the Note at the beginning of the accrual period and its yield to maturity (computed generally on a constant yield method and compounded at the end of each accrual period, taking into account the length of the particular accrual period) and (2) the amount of any qualified stated interest allocable to the accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is the sum of the issue price of the Note plus the amount of OID, if any, allocable to all prior accrual periods reduced by any payments a US Holder received on the Note that were not qualified stated interest. Under these rules, a US Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

Under the applicable US Treasury regulations, a holder of a note with OID may elect to include in gross income all interest that accrues on the note using the constant yield method. Once made with respect to a note, the election cannot be revoked without the consent of the IRS. If you are a US Holder considering an election under these rules you should consult your tax advisor.

Interest paid by the Issuer on, and any OID included in a US Holder's gross income with respect to, the Notes will generally constitute income from sources outside the United States.

Sale or other disposition of Notes

A US Holder's adjusted tax basis in a Note will generally be its cost increased by the amount of any OID included in such holder's gross income with respect to the Note under the rules discussed herein. A US Holder will generally recognise gain or loss on the sale or other disposition of a Note equal to the difference between the amount realised on the sale or other disposition and the adjusted tax basis of the Note. The amount realised will not include any amount attributable to accrued but unpaid stated interest, which will be taxed as described in "–Payments of interest" above. Gain or loss recognised on the sale or other disposition of a Note will be capital gain or loss and will be treated as from US sources for purposes of the US foreign tax credit limitation. In the case of a US Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Backup withholding and information reporting

In general, payments of principal, interest (including any OID) on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a US Holder by a US paying agent or other US related intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements. Certain US Holders are not subject to information reporting and backup withholding.

Foreign Asset Reporting

Certain individual US Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with a US financial institution. Investors who fail to report required information could be subject to substantial penalties. US Holders are urged to consult their tax advisors regarding the effect, if any, of this reporting requirement on the acquisition, ownership and disposition of the Notes.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to payments. Luxembourg has announced that it will no longer apply its withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States"**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

*The Notes should be eligible for purchase by employee benefit plans and other plans subject to Title I of ERISA, and/or the provisions of Section 4975 of the Code and by governmental, church and non-US plans that are subject to state, local, other federal law of the United States or non-US law that is substantially similar to Section 406 of ERISA and Section 4975 of the Code ("**Similar Law**") subject to consideration of the issues described in this section. ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "Risk Factors".*

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the "**Plans**")) and certain persons (referred to as parties in interest or disqualified persons) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a Plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

Accordingly, each purchaser and subsequent transferee of the Notes (or any interest in a Note) will be deemed by such purchase or acquisition of the Notes to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Notes (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Notes (or any interest therein), either that (a) it is not a Plan or a governmental, church or non-US plan which is subject to any substantially Similar Law or (b) its purchase, holding and disposition of such Notes (or any interest therein) will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-US plan subject to Similar Law, a violation of any substantially Similar Law for which an exemption is not available.

The sale of any Note to a Plan is in no respect a representation by the Issuer, the Joint Lead Managers or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Prospective investors should consult with their advisors regarding the effect of these prohibited transactions rules and of ERISA, Section 4975 of the Code and any similar laws on the purchase and holding of any Note (or interests therein).

CLEARING AND SETTLEMENT ARRANGEMENTS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer and any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both US and non-US securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both US and non-US securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes.

The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, relevant agents or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale*" and "*Transfer Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC.

The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Registration and Form

Book entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be represented by the Unrestricted Global Certificate registered in the name of a nominee of, and held by, a common depositary for Euroclear and Clearstream, Luxembourg. Book entry interests in the Notes held through DTC will be represented by the Restricted Global Certificate registered in the name of Cede & Co., as nominee for DTC, and held by a custodian for DTC. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of Euroclear, Clearstream, Luxembourg and DTC to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of book entry interests in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book entry accounts of each such institution. Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book entry interests in the Notes will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book entry interests in the Notes. The relevant Registrar will be responsible for maintaining a record of the aggregate holdings of Notes registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg, a nominee for DTC and/or, if individual Certificates are issued in the limited circumstances described under "*The Global Certificates–Registration of Title*", holders of Notes represented by those individual Certificates. The Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of book entry interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Paying Agent will also be responsible for ensuring that payments received by the Paying Agent from the Issuer for holders of book entry interests in the Notes holding through DTC are credited to DTC.

The Issuer will not impose any fees in respect of holding the Notes; however, holders of book entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC.

Clearing and Settlement Procedures

Initial Settlement

Upon their original issue, the Notes will be in global form represented by the two Global Certificates. Interests in the Notes will be in uncertified book entry form. Purchasers electing to hold book entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (value the Closing Date). DTC participants acting on behalf of purchasers electing to hold book entry interests in the Notes through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book entry interests in the Notes following confirmation of receipt of payment to the Issuer on the Closing Date.

Secondary Market Trading

Secondary market trades in the Notes will be settled by transfer of title to book entry interests in the Clearing Systems. Title to such book entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, in accordance with their respective procedures. Book entry interests in the Notes may be transferred within Euroclear and within Clearstream, Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg. Book entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book entry interests in the Notes between Euroclear or Clearstream, Luxembourg and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream, Luxembourg and DTC.

General

None of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer or any of their agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Barclays Bank PLC and Deutsche Bank AG, London Branch as the Joint Lead Managers and Joint Bookrunners (the "**Joint Lead Managers**") have in a subscription agreement dated 8 April 2014 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions is contained therein, agreed to subscribe and pay for the Notes at an issue price of 99.174 per cent. of their principal amount less (i) a combined management and underwriting commission and (ii) other expenses incurred in connection with the issue of Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

No registration under Securities Act

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Joint Lead Managers, in reliance on, and in compliance with, Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Republic of Zambia

Each Joint Lead Manager has agreed that it has not and will not perform in Zambia any of the following acts except through an entity in Zambia which holds a dealer's licence under s 2(1) of the Securities Act, Chapter 354 of the Laws of Zambia (the "**Zambian Securities Act**"): (a) acquire, dispose of, subscribe for or underwrite, the Notes; or (b) make or offer to make with any person, or induce or attempt to induce any person to enter into or offer to enter into, an agreement relating to the acquisition or disposal of, subscription for or underwriting of the Notes.

With respect to any acquisition, disposal, subscription or underwriting of the Notes in, into, or otherwise involving Zambia, each Joint Lead Manager represents, warrants and undertakes to the Issuer and each other Joint Lead Manager that it has complied and will comply with all applicable provisions of the Zambian Securities Act.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Joint Lead Manager represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

South Africa

In relation to South Africa, each Joint Lead Manager has represented, warranted and agreed that it has not and will not offer or solicit any offers for sale or subscription or sell any Notes, in each case except in accordance with the Exchange Control Regulations, 1961, promulgated pursuant to the Currency and Exchanges Act, 1933 (as amended from time to time) (the "**South African exchange control regulations"**), the South African Companies Act, 2008, the South African Banks Act, 1990 and any other applicable laws and regulations of South Africa in force from time to time. No South African Residents (as defined in the South African exchange control regulations) or their offshore subsidiaries may subscribe for or purchase any Note or beneficially hold or own any Note unless such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African exchange control regulations or the rulings or policies of the Financial Surveillance Department of the South African Reserve Bank in effect from time to time.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "**SFA**") and accordingly, the Notes may not be offered or sold, nor may the Notes be the subject of an invitation for subscription or purchase, nor may this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under that Ordinance.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Market Rules 2012 of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign debt financing instruments in the State of Qatar.

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Notes.

The Notes have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered and sold (1) in the United States only to persons reasonably believed to be QIBs in reliance on, and in compliance with, Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S.

Rule 144A Notes

Each purchaser of Rule 144A Notes, by accepting delivery of this Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

(i) the purchaser (a) is a QIB, (b) is acquiring the 144A Notes for its own account or for the account of one or more QIBs and (c) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Rule 144A Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) to the Issuer or an affiliate thereof, or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States and (ii) it will, and each subsequent holder of the Rule 144A Notes is required to, notify any purchaser of the Rule 144A Notes from it of the resale restrictions on the Rule 144A Notes;

(iii) either (i) it is not and for as long as it holds the Notes (or any interest therein) will not be, and is not acting on behalf of (and for so long as it holds any Note or interest therein will not be acting on behalf of), an "**employee benefit plan**" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "**plan**" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets are deemed for purposes of Section 406 of ERISA or Section 4975 of the Code to include "plan assets" by reason of such employee benefit plan's or plan's investment in the entity, or any governmental or other employee benefit plan subject to any US federal, state, local or non-US law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), or (ii) its purchase, holding and disposition of such Note (or any interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, is not in violation of any Similar Law);

(iv) the purchaser understands that the Rule 144A Notes (to the extent they are in certificated form) will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR

OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER ("RULE 144"), IF AVAILABLE, (D) TO THE ISSUER OR AN AFFILIATE THEREOF, OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE NOTES.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), EACH PURCHASER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, EITHER THAT (1) IT IS NOT AND FOR AS LONG AS IT HOLDS THE NOTE (OR ANY INTEREST THEREIN) WILL NOT BE, AND IS NOT ACTING ON BEHALF OF (AND FOR AS LONG AS IT HOLDS THE NOTE OR INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF), AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE TO INCLUDE "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, OR ANY GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY US FEDERAL, STATE, LOCAL OR NON-US LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (2) ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY INTEREST THEREIN) DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).

(v) it understands that the Issuer, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers; and

(vi) if it is acquiring any Notes for the account of one or more QIBs, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time the Regulation S Notes are purchased will be, the beneficial owner of such Notes and it is located outside the United States (within the meaning of Regulation S); and it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) the Regulation S Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and that it will not offer, sell, pledge or otherwise transfer Regulation S Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;

(iii) it understands that the Issuer, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers;

(iv) either (i) it is not and for as long as it holds the Notes (or any interest therein) will not be, and is not acting on behalf of (and for so long as it holds any Note or interest therein will not be acting on behalf of), an "**employee benefit plan**" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "**plan**" as defined in and subject to Section 4975 of the Code, an entity whose underlying assets are deemed for purposes of Section 406 of ERISA or Section 4975 of the Code to include "plan assets" by reason of such employee benefit plan's or plan's investment in the entity, or any governmental or other employee benefit plan subject to any US federal, state, local or non-US law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), or (ii) its purchase, holding and disposition of such Note (or any interest therein) does not and will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, is not in violation of any Similar Law).

GENERAL INFORMATION

1. Authorisation

The creation and issue of the Notes has been authorised and approved by the National Assembly of Zambia, as well as the Cabinet of the Government of the Republic of Zambia.

2. Listing and admission to trading

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

The total expenses related to the admission to trading of the Notes are expected to be approximately £3,075.

3. Legal and Arbitration Proceedings

Except for the following, the Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering the previous 12 months which may have or have had in the recent past significant effects on the Issuer's financial position.

In June 2012, a Zambian High Court ruling dismissed an attempt by the Zambian Registrar of Societies to have the MMD de-registered for unpaid fees going back to 1991. The High Court found that the decision to de-register was unreasonable in that it threatened to undermine democracy. The Government has appealed the High Court's decision and the allegations will now be considered by the Supreme Court. The MMD is not seeking monetary damages.

In early 2012, the Government reversed the sale of Zamtel to LAP alleging that the sale significantly undervalued Zamtel and that the sale was illegal. LAP filed a suit in the Zambian High Court in March 2012 seeking damages from the Government for its actions. LAP is demanding compensation of US$480 million, however the High Court may determine a lower award. LAP made an application to transfer the proceedings to London and in March 2013 the High Court of Lusaka granted the order. The Government has appealed against the order.

Varun Beverage Company, a major soft drinks manufacturer, has become locked in a legal dispute with the Government over its decision to reverse year tax deferment granted to the company in order to induce a substantial investment in Zambia. Varun Beverage Company claims that it was not given fair notice of the decision to reverse the deferment, and that the reversal was only made after the investment had been undertaken. As of July 2012, the parties were discussing a settlement. Varun Beverage Company is seeking the reinstatement of its K13 billion VAT deferments and has not made any claim for damages.

4. Significant/Material Change

Since 31 December 2013, being the end of the last fiscal year, there has been no significant change in the Issuer's (a) tax and budgetary systems, (b) gross public debt or the maturity structure or currency of its outstanding debt and debt payment record, (c) foreign trade and balance of payment figures (d) foreign exchange reserves including any potential encumbrances to such foreign exchange reserves as forward contracts or derivatives, (e) financial position and resources including liquid deposits available in domestic currency and (f) income and expenditure figures.

5. **Documents on Display**

Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of the Ministry of Finance of Zambia at Chimanga Road, Lusaka, Zambia for 12 months from the date of this Prospectus:

(a) the Agency Agreement; and

(b) the Deed of Covenant.

6. **Yield**

On the basis of the issue price of the Notes of 99.174 per cent. of their principal amount, the gross real yield of the Notes is 8.625 per cent. on a semi-annual basis.

7. **Legend Concerning US Persons**

The Notes appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that a United States person who holds a Note will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange, or redemption will be treated as ordinary income.

8. **ISIN and Common Code**

The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The ISIN for the Unrestricted Global Certificate is XS1056386714 and the Common Code for the Unrestricted Global Certificate is 105638671. The ISIN for the Restricted Global Certificate is US988895AE81 and the CUSIP for the Restricted Global Certificate is 988895 AE8.

9. **Third Party Information**

The Issuer confirms that where information included in the Prospectus has been sourced from a third party the source is identified, and that information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

10. **Interested Persons**

No person involved in the offering has any interest in the offering which is material to the offering.

11. **Managers transacting with the Issuer**

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer in the ordinary course of business.

ISSUER

The Minister of Finance
acting for and on behalf of the Republic of Zambia
Ministry of Finance
P.O. Box 50062
Chimanga Road
Lusaka
Zambia

JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

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United Kingdom

ADMINISTRATIVE AGENT AND TRANSFER AGENT

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United Kingdom

PAYING AGENT

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Lusaka
Zambia

NON-US REGISTRAR AND TRANSFER AGENT

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Grand Duchy of Luxembourg

US REGISTRAR AND TRANSFER AGENT

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United States of America

LEGAL ADVISERS

To the Issuer as to English and US law:

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To the Issuer as to Zambian law:

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To the Managers as to English and US law:

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