

Zambia Copper Investments Limited

**Annual Report
2003**

Chairman's report

Following the successful restructuring of your company in 2002, the year under review has been a period of consolidation and measured progress which, with the benefit of an improvement in the world price of copper, produced markedly improved financial results.

As we continue to build upon the foundations laid in the restructuring process and following the strategic review which your Board undertook last year, our focus has been upon the selection of a suitable strategic equity partner ("SEP") in Konkola Copper Mines plc (KCM) to provide further financial support, particularly in the form of equity, as well as technical assistance for the longer term development of the business.

I am pleased to report that following an extensive international review of potential strategic equity partners, eight companies completed a pre-qualification process. Vedanta Resources PLC, (Vedanta), the holding company of Sterlite Industries Limited, was selected as the bidder most likely to meet the present needs and long term requirements of KCM. Vedanta was therefore awarded preferred bidder status in May 2003 and negotiations are underway with a view to completion in mid 2004.

Our main objective in introducing an SEP is to secure the long term economic viability of KCM. Your Board believes this can best be achieved through the coherent development of the wider KCM resources thereby extending the life of the mine considerably, in line with the technical review which was undertaken by KCM last year. The negotiations with Vedanta are directed towards securing this key objective.

Turning to the financial results, it is gratifying to report that the level of losses for the year were significantly reduced. The consolidated net loss for 2003 was US\$8.8m compared to US\$349.8m for 2002, a figure which incorporated both negative impairment adjustments and restructuring costs.

These results reflect the improvement in the world price for copper in the latter months of 2003, which whilst most welcome, was insufficient to fully offset the impact of the poor price levels which pertained for the first three quarters of the year. As a result, the average price achieved during the year rose only to US\$0.78/lb compared to US\$0.715/lb in 2002. The benefit of the higher price was also mitigated by the impact of long term KCM contracts where prices had been negotiated earlier in the year. Cobalt prices, however, fared rather better, improving to an average realised price of US\$9.08/lb from US\$6.46/lb in 2002.

Gains in metal prices were unfortunately largely negated by a decline in production at KCM.

KCM produced 188,000 tonnes of copper (222,000 tonnes in 2002) and 1,200 tonnes of Cobalt (2,000 tonnes in 2002). As a significant portion of KCM's operating costs are a fixed nature, this decline in volume resulted in the unit cost of production of copper increasing

Chairman's report

Continued

from US\$0.75/lb in 2002 to US\$0.79/lb by the end of the year. Various factors contributed to the decline in production at KCM, including the planned downscaling of operations at the Nchanga Open Pit, the partial shutdown of the Nkana smelter for modernisation works, the local fuel crisis and an acute shortage of acid supplies.

Plans have however been implemented to compensate for the decline in production with a capital commitment of US\$15 million by the KCM board for the establishment of a sulphur burner plant at Nkana during 2004 and the revision of estimates at the Nchanga Open Pit to provide an extension of life of that mine. I am further happy to report that the Nkana smelter modernisation project was completed in September 2003 and is expected to reduce copper production costs by approximately US\$0.03/lb. In addition, the Nchanga Tailings Leach Plant CCD circuit commenced operations in November 2003 and is expected to increase leach copper recovery by 7%.

As reported last year, Mr. Robin Mills resigned as a director of the Company on 31st January 2003 to be replaced by Mr. Russell Alley who was also appointed Chief Executive Officer of KCM on 1st February 2003. Mr. Alley provided strong and experienced leadership to KCM during a critical year of change.

He also made an invaluable contribution to your Board during this period. It was therefore with considerable regret that we accepted his resignation as a director at the end of January 2004 at which time he also relinquished his role at KCM.

Your Board has acted diligently throughout the year to create a realistic platform from which the business can be developed for the benefit of all the Company's stakeholders and in the best interests of shareholders. In the event that negotiations with Vedanta are concluded satisfactorily your Board will issue a circular to shareholders for approval.

The year ahead will be a crucial one for the long term success and prosperity of both KCM and for your Company. In addition, if copper prices stabilise at or near their present levels then the outlook for 2004 will be much improved.

In the meantime, I would like to place on record your Boards appreciation of the support given to the industry by the Government of the Republic of Zambia, the work being undertaken by the Copperbelt Development Foundation and the efforts made by the unions and all the employees of KCM during what continues to be a testing period of change.

B Ireton

Chairman

Report of the directors

Nature of business

ZCI is Bermudian registered with its primary listing on the JSE Securities Exchange SA (the "JSE"). It has secondary listings on the London Stock Exchange and the Paris Bourse. The Company's major asset is its holding of 58% of the share capital of KCM, a Zambian registered mining company.

Going concern

Since the withdrawal of Anglo American plc ("Anglo") from its investment in KCM in September 2002, the shareholders of KCM, being ZCI, the Government of the Republic of Zambia ("GRZ"), and ZCCM Investments Holdings plc ("ZCCM") have been in discussion with a view to finding a solution that would enable both KCM and the Company to continue in operation as going concerns.

The directors have reviewed the audited consolidated accounts prepared by KCM for the year ending 31 December 2003 and are of the view that these indicate that sufficient funding, ownership and management arrangements have been secured to enable KCM and the Company to continue in operation as going concerns for the foreseeable future.

The directors, therefore, consider that the preparation of the financial statements on a going concern basis is appropriate.

As stated in the circular to shareholders of 23 August 2002, as part of the restructuring to facilitate the exit of Anglo from its investment in KCM, ZCI was funded with the sum of US\$ 1.5 million for the purposes of meeting its administration costs and expenses, which amount was transferred to ZCI as of 16 September 2003. For a more detailed view of the cash position of ZCI and its wholly-owned subsidiaries, namely ZCI Holdings S.A., ZCI Holdings Limited and Zambia Copper Investments (Luxembourg) Limited ("the ZCI Group"), shareholders are referred to note 32 of the Notes to the consolidated financial statements.

Dividends

No dividends were paid or proposed by ZCI in respect of the year ended December 31, 2003.

Report of the directors

continued

Directors and officers

During the year the following changes to the composition of the Board occurred:

Resignations

R G Mills (Resigned 31 January 2003)

Appointments

R Alley (Appointed 01 February 2003, Resigned, 29 January 2004)

Directorate

The directors of the Company as at 31 December 2003 were:

Non-Executive

B. Ireton (Chairman)

R. Alley

D. Rodier

S. Georgala

Directors meetings and remuneration

During 2003, the ZCI Board met on ten occasions, in addition to the Annual General Meeting, to consider issues of an operational nature, strategy, as well as those having a material effect on ZCI and the Group.

The total remuneration paid to Directors during the year was USD 63,200, which was allocated as follows:

B. Ireton (Chairman)	USD 18,200.00
R. Alley	USD 15,000.00
D. Rodier	USD 15,000.00
S. Georgala	USD 15,000.00

All of the directors retire at the forthcoming annual general meeting in accordance with Bermudian Law and, being eligible, offer themselves for re-election. Subject to such re-

Report of the directors

Continued

election the Board proposes to re-elect B Ireton as Chairman. A brief profile of the Directors is included hereunder:

Barrie Ireton, CB

Barrie Ireton was born in Hitchin, England, on 15 January 1944. He graduated with an MA from Trinity College, Cambridge in 1965 and with an MSc from the London School of Economics in 1970.

Mr Ireton has gained extensive experience working both on, as well as for the benefit of African continent. He began working as an economic statistician for the Government of Zambia in 1965. He progressed to the position of economist for the Industrial Development Corporation in Zambia in 1968. By 1970, he had been appointed Development Secretary for Gambia, which was a position he held until 1973. He then took up a position with the Overseas Development Administration, where he spent many years, initially as an economic adviser, and rising to the position of Director, African Division in 1993. In 1996, Mr Ireton became Director General of what is now known as the United Kingdom Department for International Development (DFID), which was an office he held until 2003 and where he was responsible variously for bilateral aid programmes worldwide, multilateral development institutions, as well as overall policy and knowledge management.

Mr Ireton is currently Special Financial Adviser to the DFID and is the DFID's representative director at the European Investment Bank (EIB). Mr. Ireton is Chairman of Zambia Copper Investments Limited and Konkola Copper Mines.

David Rodier

David Rodier was born in Montreal, Canada, on June 26, 1943. He obtained a Bachelor's degree in Metallurgical Engineering from McGill University, Montreal, in 1966.

He gained his extensive working experience in the non-ferrous industry, starting with Cominco in British Columbia, (now Teck-Cominco) and later for Noranda Inc., where he was employed for 35 years and where he was involved with zinc and copper recycling. His experience includes a wide group of technical and managerial positions in zinc and copper businesses. His most recent positions were: Senior Vice President, Environment Safety and Health at Noranda between 1998 and 2002; Senior Vice President, Copper & Recycling at Noranda between 1995 and 1997; and President of Canadian Electrolytic Zinc between 1992 and 1995.

Mr. Rodier was Noranda's delegate to the World Business Council for Sustainable Development, the International Council for Mining and Metals, the International Zinc Association, the International Copper Association, the Mining Association of Canada and the Canadian Chemical Producers Association. He currently works as Senior Consultant, Sustainability for Hatch Associates, a global engineering company located in Ontario, Canada, which is devoted to the support of the Mining and Metallurgical industries.

Report of the directors

Continued

Steven Georgala

Steven Georgala was born in Nelspruit, South Africa on 26 April 1957. He obtained a B.Comm. degree from the University of Stellenbosch in 1979 and a LL.B. degree from the same University in 1981. He completed his Articles with Webber Wentzel Bowens and was admitted as an Attorney and Notary in June 1984. In 1984 he obtained a Higher Diploma in Company Law from the University of the Witwatersrand. In December 1984, he was posted to the Luxembourg office of Webber Wentzel Bowens where he became a partner of the firm in 1987. The European offices of Webber Wentzel Bowens became Maitland & Co in 1993 and Mr. Georgala, now resident in Paris, France continues as a principal of Maitland & Co where he specialises in international tax planning.

Directors' interests

At December 31, 2003 the directors held no shares in ZCI, either beneficially or non-beneficially, and did not have any direct or indirect beneficial interests. There are no service contracts granted by ZCI, nor any of its subsidiaries, to any director of ZCI for services as directors, nor were there any contracts or arrangements existing during the financial year which require to be declared in terms of the requirements of the JSE.

Shareholders at December 31, 2003

Pursuant to the listing requirements of the JSE, to the best knowledge of the directors, and after reasonable enquiry, the spread of shareholders at December 31, 2003 was:

	Number of shares	Percentage holding
Non-public shareholders		
Copperbelt Development Foundation	55,932,533	44.3%
Trustees of the KCM Employee Share Ownership Trust	10,095,789	8.0%
Public shareholders	60,169,040	47.7%
		100.0%

According to the information available to the directors, the following are the only registered shareholders holding, directly or indirectly, more than 5% of ZCI's issued ordinary shares:

Report of the directors

Continued

	Number of shares	Percentage holding
Copperbelt Development Foundation	55,932,533	44.3%
Sicovam S.A.	41,621,790	33.0%
Trustees of the KCM Employee Share Ownership Trust	10,095,789	8.0%

Auditors

Deloitte & Touche were reappointed as auditors of ZCI at the annual general meeting held on June 11, 2003. They have indicated their willingness to continue in office and, accordingly, a resolution for their appointment will be submitted to the forthcoming annual general meeting.

Annual General Meeting

The annual general meeting will be held at 10h00 on Wednesday, 05 May 2004. The notice convening the meeting is set out on page 42 of this report.

By Order of the Board

John Mills
Company Secretary
Luxembourg
23 March 2004

Code of corporate practices and conduct

ZCI and its operating subsidiary are committed to the principles of openness, integrity and accountability advocated in the South African King II Report on Corporate Governance and the UK Combined Code on Corporate Governance. The directors endorse the Code of Corporate Practices and Conduct (the “Code”), as set out in the King II Report.

Application

Having regard to the fact that the Company has no employees or administrative infrastructure of its own, many of the requirements of the Code are not applicable to it. The Company has taken appropriate steps to implement procedures to ensure compliance with the Code by its operating subsidiary KCM.

Annual financial statements

The directors are responsible for the preparation, integrity and fair presentation of the financial statements and it is the responsibility of the independent auditors to report thereon. In preparing the annual financial statements the Company has used appropriate accounting policies consistently, supported by reasonable and prudent judgement and estimates and has complied with all statutory requirements and all applicable accounting standards, including International Accounting Standards. A KCM Shareholders’ Steering Committee was established in 2002. Although the Steering Committee was disbanded during 2003, the dialogue initiated by this Committee has continued, and the shareholders of KCM, including the Government of the Republic of Zambia (“GRZ”), have been in regular discussion with a view to finding a solution that would enable both KCM and the Company to continue in operation as going concerns.

These discussions highlighted the desirability to search for a Strategic Equity Partner, which search resulted in Vedanta Resources Plc (“Vedanta”), formerly known as Sterlite Industries Limited, being awarded preferred bidder status. Negotiations with Vedanta are underway and, if positively finalised, indications are that sufficient funding, ownership and management arrangements will be secured to enable KCM and the Company to continue in operation as going concerns for the foreseeable future.

Board of directors

During the year under review, the Company’s board of directors consisted of four non-executive directors. The board retains full and effective control over the Company. To fulfil their responsibilities, the Company’s board of directors has access to accurate, relevant and timely information and to the advice and services of the company secretary who is responsible to the board for ensuring the board procedures are followed. In addition, the

Code of corporate practices and conduct

Continued

directors are entitled to obtain independent professional advice at the Company's expense, should they deem this necessary.

The KCM board of directors, which met on five occasions during the year, comprises one executive director and five non-executive directors, of which three are appointed by ZCI. The chairman of the KCM board is a non-executive director and the executive director is KCM's chief executive officer. The KCM board reserves to itself a range of key issues and decisions to ensure that it retains proper direction and control of KCM. Non-executive directors are individuals of high calibre with diverse backgrounds and expertise which ensures that their views carry significant weight in deliberations and decisions.

To assist the KCM board in discharging its collective responsibility for corporate governance, committees have been established to which certain of the board's responsibilities have been delegated. These committees have specific terms of reference and are accountable to the board.

SHEQ Committee

The Safety, Health, Environment and Quality ("SHEQ") Committee is responsible for developing framework policies and guidelines for safety, health, environment and social management and ensuring the progressive implementation of the same throughout the Company in working towards internationally accepted standards and best practices. The Committee is also responsible for addressing SHEQ risks and impacts in a systematic, comprehensive and businesslike manner and for promoting good relationships with the communities in which the Company operates. Safety standards and safety risk awareness continue as high priorities and have improved over the year. The Lost Time Injury Frequency Rate fell from 0.51 to 0.44 per 200,000 man-hours. However, there were regrettably four fatal accidents at KCM during the year.

Audit Committee

The Audit Committee comprising solely of Non-Executive Directors and Alternate Directors is responsible, inter alia, for the review of the procedures and policies of internal control, the review of the measures taken by Management in mitigating risk, the regular review of the adjudication of tenders and award of contracts in ensuring that they comply with the intent of the Shareholders Agreement, the review of any statement on ethical standards for the Company, the review of the accounting principles, policies and practices adopted in the preparation of the statutory financial statements and the consideration of the appointment of external Auditors.

The Executive Committee is empowered and responsible for implementing the strategies and policies determined by the Board, managing the business and affairs of the Company,

Code of corporate practices and conduct

Continued

prioritising the allocation of capital, technical and human resources and establishing best management practices.

Internal control

The Internal Audit Department of the Company is empowered by the Audit Committee, as per a Board approved Internal Audit Charter, to report on and make Management aware of the effectiveness of the internal control systems applicable to both operations and finance. The control systems are designed to safeguard the Company's assets, maintain proper accounting records, ensure mitigation of operating risks and ensure the reliability of management and financial information produced by the Company.

The Headline Risk Areas of the Company are reviewed on a bi-annual basis under the Combined Code and appropriate action plans are implemented to mitigate identified high impact and high likelihood risks.

Code of conduct

The Company and KCM require that all directors and employees conduct themselves with honesty and integrity in all business practices to achieve the highest standard of ethical behaviour. In accordance with this objective, KCM has adopted a code of ethics to provide a clear guide as to the behaviour expected of directors and employees.

Consolidated statement of earnings

for the year ended December 31, 2003
expressed in thousands of US Dollars

	Notes	2003	2002
Turnover	4,5	356,308	394,096
Cost of sales		(286,251)	(344,463)
Gross Profit		70,057	49,633
Other operating expenses		(75,282)	(68,986)
Depreciation		(9,840)	(30,272)
Impairment of tangible fixed assets	11	-	(240,369)
Loss from operations		(15,065)	(289,994)
Other income		2,011	4,696
Interest income		11	17
Interest expense		(1,121)	(9,516)
Commitment fees on loan facility		-	(102)
General and administration expenses		(479)	(784)
Impairment of goodwill	11	-	(66,066)
Contributions to finance restructuring	6	-	16,876
Restructuring costs		-	(4,687)
Loss before taxation		(14,643)	(349,560)
Taxation	8	(166)	(193)
Loss after taxation		(14,809)	(349,753)
Loss attributable to minority interest		6,001	-
Net Loss		(8,808)	(349,753)

per ordinary share in US cents

Headline loss before exceptional items and amortisation and impairment of goodwill	7	(6.98)	(44.90)
Net loss	7	(6.98)	(282.94)

Consolidated statement of financial position

for the year ended December 31, 2003
expressed in thousands of US Dollars

	Notes	2003	2002
Fixed Assets			
Intangible assets	9	-	-
Tangible fixed assets	10	116,011	71,036
Deferred Secondary Expenditure	12	25,771	29,159
		<u>141,782</u>	<u>100,195</u>
Investments and advances	13	-	-
		<u>141,782</u>	<u>100,195</u>
Current assets			
Stocks	14	87,864	88,308
Accounts receivable	15	46,924	46,658
Cash and short-term investments	16	4,761	39,126
		<u>139,549</u>	<u>174,092</u>
Current liabilities			
Short term loans and bank overdrafts	17	25,933	5,824
Accounts payable and accrued liabilities	18	59,778	53,171
		<u>85,711</u>	<u>58,995</u>
Net current assets		<u>53,838</u>	<u>115,097</u>
Total assets less current liabilities		<u>195,620</u>	<u>215,292</u>
Long term liabilities			
Long term loans	19	(35,142)	(35,033)
Provisions	20	(89,429)	(92,632)
Minority interest	30	(29,079)	(36,335)
		<u>41,970</u>	<u>51,292</u>
Capital and reserves			
Capital	23	508,807	508,807
Revaluation reserves		1,220	-
Hedging reserves	22	(1,734)	-
Accumulated deficit		(466,323)	(457,515)
		<u>41,970</u>	<u>51,292</u>
Shareholders' equity		<u>41,970</u>	<u>51,292</u>

Approved by the board of directors, dated March 23, 2004: B. Ireton, director S. Georgala, director

Consolidated statement of changes to equity

for the year ended December 31, 2003
expressed in thousands of US Dollars

	Share capital	Contributed surplus	Accumulated deficit	Revaluation reserve	Hedging reserves	Total
Balance at December 31, 2001	29,426	17,355	(107,762)	-	-	(60,981)
Shares issued (note 23)	873	-	-	-	-	873
Contributed on restructuring (note 23)	-	461,153	-	-	-	461,153
Loss for the year	-	-	(349,753)	-	-	(349,753)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2002	30,299	478,508	(457,515)	-	-	51,292
Net loss on Cashflow hedges (note 22)	-	-	-	-	(2,989)	(2,989)
Minority Interest on Cashflow Hedges	-	-	-	-	1,255	1,255
Revaluation on Equity Fund Investment	-	-	-	1,220	-	1,220
Loss for the year	-	-	(8,808)	-	-	(8,808)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2003	30,299	478,508	(466,323)	1,220	(1,734)	41,970

Consolidated statement of cash flows

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

	Notes	2003	2002
Cash flow from operating activities			
Cash received from customers		355,792	398,559
Cash paid to suppliers and employees		(355,253)	(378,425)
		<hr/>	<hr/>
Cash generated by operations		539	20,134
Interest paid		(1,150)	(1,343)
Income tax paid		(256)	(80)
		<hr/>	<hr/>
Net cash (absorbed) / generated by operating activities		(867)	18,711
		<hr/>	<hr/>
Cash flow from investing activities			
Proceeds from disposal of tangible fixed assets		11	334
Capital expenditure		(54,838)	(58,277)
		<hr/>	<hr/>
Cash absorbed by investing activities		(54,827)	(57,943)
		<hr/>	<hr/>
Cash flow from financing activities			
Shareholders long-term loans received		-	97,813
Other loans received		-	35,000
Contributions received to finance restructuring		-	33,637
Short term loans repaid		-	(60,000)
		<hr/>	<hr/>
Cash generated by financing activities		-	106,450
		<hr/>	<hr/>
Net (decrease) / increase in cash		(55,694)	67,218
Net cash / (debt) at the beginning of the year		33,302	(33,916)
		<hr/>	<hr/>
Net (debt) / cash at the end of the year		(22,392)	33,302
		<hr/>	<hr/>
Cash deposits and cash at bank	16	3,541	39,126
Short term loans and bank overdrafts	17	(25,933)	(5,824)
		<hr/>	<hr/>
Net (debt) / cash at the end of the year		(22,392)	33,302
		<hr/>	<hr/>

Notes to the consolidated financial statements

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

1 Incorporation

Zambia Copper Investments Limited (“ZCI” or the “Company”) is incorporated as an investments holding company in Bermuda. The company is exempt from Bermuda taxation.

The Company’s principal activity is the holding of a 58% interest in Konkola Copper Mines plc (“KCM”), a company incorporated in the Republic of Zambia. The Group had an average of 11,179 permanent employees in 2003 (2002: 9,919).

2 Basis of preparation of consolidated financial statements

On January 24, 2002 the Company issued an announcement to the effect that, following advice from Anglo American plc, it would not be in a position to provide funding to its principal subsidiary, KCM, beyond its obligations under the Subscription and Shareholders Loan Agreement (“SSLA”). Furthermore, the announcement stated that KCM’s financial projections, that are based on current metal prices, indicate that in order to sustain its operations KCM will require funding, over and above that pledged under the SSLA, from around the end of the first quarter of 2002 and it was decided to restructure KCM.

Following the announcement on January 24, 2002 a KCM Shareholders’ Steering Committee had been established on which was represented all the shareholders including the GRZ, to explore all options available to the Company following ZCI’s announcement. Negotiations took place between the shareholders, which culminated in Agreements to restructure KCM, which were signed on 16 August 2002 and became effective on 17 September 2002. Further details of the restructuring are provided in note 25.

Following the restructuring, the directors are of the view that the Company is a going concern and the financial statements have been prepared on this basis.

3 Significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These financial statements are presented in United States Dollars since that is the currency in which the majority of the Group’s business is denominated.

Notes to the consolidated financial statements

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

The financial statements have been prepared on the historical cost basis. The accounting policies applied are consistent with the previous year. The principal accounting policies adopted are set out below.

Principles of consolidation

The consolidated financial statements include the financial statements of ZCI and all companies more than 50% owned by ZCI.

The interest of minority shareholders is stated at the minority's proportion of the assets and liabilities recognised.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Acquisitions and goodwill arising thereon

Where an investment in a subsidiary is made, any difference between the purchase price and the fair value of the attributable net assets is recognised as goodwill. Goodwill is amortised over its estimated useful life up to a maximum of 20 years and is included within intangible fixed assets. The unamortised balance is reviewed on a regular basis and, if an impairment in value has occurred, it is written off in the period in which the circumstances are identified.

Negative goodwill is created where the attribute fair value of the net tangible assets acquired exceeds the fair value of the consideration paid, and is recognised in the periods it is expected to benefit.

Turnover

Turnover represents the amounts invoiced, excluding value added tax, in respect of metals and other products despatched to customers during the year.

Tangible Fixed Assets

Mining assets are stated in the balance sheet at cost less accumulated amortisation. Other tangible fixed assets are stated in the balance sheet at cost less depreciation.

Mining assets include the cost of acquiring and developing mining properties.

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The cost of borrowings utilised for the acquisitions or construction of tangible fixed assets is capitalised during the period to commissioning and shown as part of the cost of fixed assets. Borrowing costs incurred after the date of commissioning are charged to the consolidated statement of earnings.

Notes to the consolidated financial statements

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

The cost of developing access to mine ore bodies during the commercial production stage is normally written off as production cost. However, where such costs are significant and are identified as benefiting future years, they are capitalised and included in mining assets and expensed in the year when the related production is achieved

If the recoverable amount of any of the above assets is less than the carrying value, a provision is made for the impairment in value.

Amortisation and Depreciation

Amortisation is charged to write off the cost of mining properties and leases and mine developments using the unit of production method based on proven and probable reserves.

Amortisation is charged to write off the cost of land and buildings on a straight line basis up to a maximum of life of mine.

Depreciation is charged to write off the cost of plant, equipment and motor vehicles at varying rates, over the lower of life of mine and the estimated useful lives of the mines to which they relate or on a straight-line basis over their estimated useful lives.

Capital work in-progress is not depreciated.

Impairment

At each balance sheet date, the Group review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. An impairment loss previously recognised in respect of

Notes to the consolidated financial statements

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

goodwill should be reversed only if the loss was caused by a specific event of an exceptional nature that is not expected to recur.

Deferred Secondary Development Expenditure

The cost of developing access to mine ore bodies during the commercial production stage are normally written off as production costs. However where such costs are significant and are identified as benefiting future years, they are deferred and expensed in the year when the related production is achieved.

Equity Fund Investments

Equity Fund Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs. Equity Fund Investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or is determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in the net profit and loss for the period.

Stocks

Finished and process metal stocks are valued at the lower of cost or estimate net realisable value. Cost represents average production cost and excludes corporate head office and certain administration and selling expenses. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Consumable stores are valued at the lower of cost or estimate net realisable value. A provision is made for excess, slow moving and obsolete items. Cost is determined on a weighted average basis and includes all direct costs incurred up to delivery at mine.

Pensions

KCM maintains a defined contribution pension scheme for most of its employees. The costs relating to the scheme are charged against income as they fall due.

Trade receivables

Receivables are stated at their nominal value as reduced by appropriate allowances for estimate irrecoverable amounts.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable

Accounts payable are stated at their nominal value.

Notes to the consolidated financial statements

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Restoration, rehabilitation and environmental costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mine,

Costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation for the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage, which is created on an ongoing basis during production, are provided for and charged against income as extraction progresses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Leases

Rental costs under operating leases are charged to profit and loss in equal annual amounts over the lease term.

Translation of foreign currencies

Transactions denominated in currencies other than United States Dollars are accounted for at the rate of exchange ruling on the date of the transaction. Where the transaction is covered by a forward exchange contract the rate specified in the contract is used.

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Monetary assets and liabilities denominated in currencies other than United States Dollars are accounted for at the rates of exchange ruling at the balance sheet date, or at the forward rate determined in forward exchange contracts. Gains and losses arising on translation are included in the profit and loss account for the period.

Hedging transactions

In order to hedge its exposure to commodity price risk, KCM may enter into forward, option and swap contracts. Gains and losses on these contracts are recognised in the period to which the gains and losses of the underlying transactions relate. Where commodity option contracts hedge anticipated future production or purchases, KCM amortises the option premiums paid over the life of the option and recognises any realised gains and losses on exercise in the period in which the hedged production is sold or commodity purchases are made.

4 Principal activity and segmental information

The principal activity of the Group is the mining and production of copper and cobalt, and toll treatment of copper concentrates. The sales revenue can be analysed as follows:

	2003	2002
Copper	328,261	355,591
Cobalt	24,291	30,603
Other	3,756	7,902
	<hr/>	<hr/>
	356,308	394,096
	<hr/> <hr/>	<hr/> <hr/>

The Group has one reportable segment, its principal activity.

5 Geographical segments

The Group mining operations are located in Zambia. The following table provides an analysis of the Group's sales by geographical market:

	2003	2002
Sales revenues		
Asia	160,158	321,556
Europe	21,156	63,416
Rest of Africa	55,592	7,653
America	119,402	1,471
	<hr/>	<hr/>
	356,308	394,096
	<hr/> <hr/>	<hr/> <hr/>

Notes to the consolidated financial statements

for the year ended December 31, 2003
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6 Contributions to finance restructuring

In 2002, a surplus of USD 16,876,000 resulted from the restructuring as explained in Note 25. This represents the ZCI share of the USD 30 million exit settlement received by KCM and other amounts received from Anglo American for working capital requirements.

7 Loss per share

	2003	2002
Net loss attributable to shareholders (USD '000)	8,808	349,753
Add exceptional income:		
Contributions to finance restructuring	-	16,876
Less exceptional expenses:		
Impairment of tangible fixed assets	-	(240,369)
Amortisation of goodwill	-	-
Impairment of goodwill	-	(66,066)
Restructuring costs	-	(4,687)
	<hr/>	<hr/>
Headline loss before exceptional items and amortisation and impairment of goodwill	8,808	55,507
	<hr/>	<hr/>
Weighted average number of shares in issue (thousands)	126,197	123,616
Headline loss per share (US cents per share)	6.98	44.90
Basic net loss per share (US cents per share)	6.98	282.94

Basic loss per share is calculated by dividing the net loss attributable to the shareholders by the weighted average number of shares in issue during the year.

8 Taxation

	2003	2002
Current income tax based on interest income for year	166	193
Deferred tax	-	-
	<hr/>	<hr/>
	166	193
	<hr/>	<hr/>

Notes to the consolidated financial statements

for the year ended December 31, 2003
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Payable in respect of year	166	193
Payable in respect of subsidiary	-	28
Payable /(Receivable) in respect of previous year	123	(18)
Paid during year	(256)	(80)
	<hr/>	<hr/>
Included in Accounts payable (note 18)	33	123
	<hr/>	<hr/>

KCM has losses for taxation purposes of approximately USD 635,897,000 (2002: USD 580,880,000) subject to agreement with the Zambia Revenue Authority. The losses are available to be carried forward, up to a maximum of 20 years, for set off against future profits from the same source. In accordance with the KCM Development Agreement, which KCM has with the GRZ, KCM is not required for 20 years to deduct any withholding tax on payments made for interest, royalties and management fees to its shareholders, affiliates or any lender of money.

Deferred tax has been accounted for as follows:

	2003	2002
Tax effect of timing differences due to:		
Capital allowance in excess of depreciation	72,586	51,764
Other timing differences	3,868	6,003
	<hr/>	<hr/>
Total potential liability	76,454	57,767
Tax losses	(158,974)	(145,220)
	<hr/>	<hr/>
	82,520	87,453
	<hr/>	<hr/>
Deferred tax asset not provided for	(82,520)	(87,453)
	<hr/>	<hr/>

9 Intangible assets

	2003	2002
Goodwill:		
Costs of acquiring interest in KCM	4,594	4,594
Share of ZCCM free carried interest	4,660	4,660
Acquisition of ZCCM (SmelterCo) Limited		
Tangible fixed assets	(56,851)	(56,851)
Net current assets	(1,562)	(1,562)
Provisions for liabilities	21,361	21,361
Loans	87,853	87,853
	<hr/>	<hr/>

Notes to the consolidated financial statements

for the year ended December 31, 2003
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	50,801	50,801
Consideration	7,000	7,000
Goodwill acquired from ZCCM (SmelterCo) Limited	57,801	57,801
	<u>67,055</u>	<u>67,055</u>
Less: accumulated amortisation	(989)	(989)
Less: impairment of goodwill	(66,066)	(66,066)
	<u> </u>	<u> </u>
Goodwill	-	-
	<u> </u>	<u> </u>

On 17 September 2002, KCM exercised the call option to acquire 100% interest in ZCCM (SmelterCo) Limited at the option exercise price of USD 7,000,000.

Accordingly, as provided by International Accounting Standards No. 27: Consolidated Financial Statements for Investments in Subsidiaries (revised 2003), KCM has incorporated the results of its subsidiary now known as KCM (SmelterCo) Limited effective that date.

10 Tangible fixed assets

	Mining properties and leases and mine developments and equipment	Leasehold land and buildings	Plant, equipment, and other	Capital work in progress	Total
Cost					
At January 1, 2003	6,814	4,625	88,796	38,433	138,668
Reclassifications	970	(84)	(10,315)	9,429	-
Impairment adjustment (note 11)	-	-	-	-	-
Acquisition of subsidiary (note 9)	-	-	-	-	-
Additions	-	-	-	54,838	54,838
Interest capitalised	-	-	-	-	-
Transfers	3,187	1,195	15,902	(20,284)	-
Disposals	-	-	(134)	-	(134)
At December 31, 2003	10,971	5,736	94,249	82,416	193,372
Accumulated Depreciation					
At January 1, 2003	6,814	4,625	56,193	-	67,632
Charge for year	259	42	9,539	-	9,840
Eliminated on disposal	-	-	(111)	-	(111)

Notes to the consolidated financial statements

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At December 31, 2003	7,073	4,667	65,621	-	77,361
Net book value					
At December 31, 2003	3,898	1,069	28,628	82,416	116,011
At December 31, 2002	-	-	32,603	38,433	71,036

Other tangible fixed assets include motor vehicles, office furniture and equipment. Expenditure on assets under construction is initially shown as capital work-in-progress and is transferred to the relevant class of asset when commissioned. In prior years, deferred secondary expenditure has been disclosed as Mining properties and leases, and mine developments and equipment. This has been separately disclosed (note 12).

11 Impairment adjustments

Impairment adjustments are a result of changes in economic circumstances, including the fall in market prices of KCM's products and the suspension of the Konkola Deep Mining project resulting in a reduction of the economic life of the business. As a result, the directors consider that the carrying amounts of the Group's tangible and intangible fixed assets may not be recoverable. Accordingly, a provision for impairment of those assets was recorded in the consolidated financial statements at June 30, 2002 in accordance with the requirements of IAS 36: Impairments of Assets.

The impairment adjustment represents the amount by which the carrying amount of the tangible and intangible assets of the Group at June 30, 2002 exceed their estimated recoverable amount. The Group has been considered as a single cash-generating unit for the purpose of the review. The recoverable amount is the value in use, which was determined at a discount rate of 15%.

Due to the historical operating losses within KCM (SmelterCo) Limited and the uncertainty of future profits, the directors consider it prudent to reduce the carrying amounts of the goodwill that arose on the acquisition of KCM (SmelterCo) Limited. Accordingly, a provision for impairment of the goodwill has been raised in accordance with the requirements of IAS 36: Impairment of Assets.

	2003	2002
	-	248,634
	-	57,801
	-	306,435

Notes to the consolidated financial statements

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12 Deferred Secondary Expenditure

	2003	2002
Deferred Secondary Expenditure at the beginning of the year	29,159	33,524
Arising during the year	37,564	49,549
Expensed during the year	(40,952)	(53,914)
	<hr/>	<hr/>
Deferred Secondary Expenditure at the end of the year	25,771	29,159
	<hr/> <hr/>	<hr/> <hr/>

Deferred secondary development expenditure relate to costs incurred during the commercial production stage that would normally be written off as production costs, but where such costs are significant and are identifiable as benefiting future years, for example the costs of the additional haulage ways, they are capitalised and amortised.

In prior years, this has been disclosed aggregated in Tangible fixed assets as Mining properties and leases, and mine development and equipment.

13 Investments and advances

	2003	2002
Loans		
Deferred consideration owing by the GRZ	-	-
Loan to ZCCM, including capitalised interest	-	-
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

The Company's investment in ZCCM was sold to the GRZ for a deferred consideration of USD 30,000,000 (indexed by reference to the Producer Price Index published in the United States ('US PPI')) payable in six equal instalments commencing on January 1, 2006.

As part of the restructuring, ARH Limited SA assigned to GRZ for nil consideration, the amount owing by ZCI to ARH under the Revolving Credit Facility Agreement, immediately following which GRZ offset its indebtedness to ZCI against the same amount owing by GRZ to ZCI in respect of deferred consideration pursuant to the ZCI Share Sale Agreement.

Also as part of the restructuring, Anglo American lent KCM a total of USD 30,000,000 and assigned the benefit of this loan to ZCI and ZCCM to enable set-off of the ZCI loan by ZCCM.

Notes to the consolidated financial statements

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14 Stocks

	2003	2002
Finished and process metal	60,938	62,278
Consumable stores	26,926	26,030
	<u>87,864</u>	<u>88,308</u>

At December 31, 2002, stocks of finished and process copper with cost of 64,625,000 were stated at net realisable value of USD 57,190,000. Accordingly, a write down of USD 7,435,000 was accounted for in cost of sales in that year. At December 31, 2003, stocks of finished and process copper were stated at cost.

Consumable stores are stated net of a provision for obsolescence of USD 4,234,000 (2002: USD 4,894,000).

15 Accounts receivable

	2003	2002
Trade debtors	15,077	14,561
Other debtors and prepayments	31,503	31,719
Staff costs	344	378
	<u>46,924</u>	<u>46,658</u>

The Group has credit risk attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and counterparties.

16 Cash and short-term investments

	2003	2002
Call deposits and cash at bank	3,541	39,126
Equity Fund Investment	1,220	-
	<u>4,761</u>	<u>39,186</u>

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Cash deposits are held in United States dollars.

The credit risk on cash and liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

17 Short term loans and bank overdrafts

	2003	2002
Bank overdrafts	11,654	5,824
Short term loan	14,279	-
	<u>25,933</u>	<u>5,824</u>

The bank overdrafts are unsecured and repayable on demand. Interest is payable at USD LIBOR plus 1%.

A short term loan facility of USD 35,000,000 was secured during the year. The amount recognised in the financial statements represents the actual draw down on the facility. The loan is secured on working capital and remains unpaid during the year. The amounts drawn on the facility are repayable as agreed with the lender at time of draw down and are subject to renewal 5 days before expiry of the loan period. Interest was calculated to aggregate USD LIBOR plus 1.25% plus mandatory costs.

The previous short term loan was unsecured and was repaid during 2002. Interest was calculated to aggregate USD LIBOR plus 1.25% plus mandatory costs.

18 Accounts payable and accrued liabilities

	2003	2002
Trade creditors	19,525	40,321
Other creditors and accrued expenses	40,220	12,727
Taxation payable (note 8)	33	123
	<u>59,778</u>	<u>53,171</u>

Included in sundry creditors and accrued expenses is an amount payable in respect of expected losses of USD 2,989,000 on forward contracts on the sale of copper metal. The amount relates to forward contracts due to mature in months after the balance sheet date and has been accounted for in reserves in accordance with the requirements of IAS 39: Financial Instruments: Recognition and Measurement.

Notes to the consolidated financial statements

for the year ended December 31, 2003
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19 Long term loans

	2003	2002
Loan from A.R.H. Limited S.A. to ZCI	-	-
Capitalised interest and commitment fee thereon	-	-
	<u>-</u>	<u>-</u>
Amount due to A.R.H Limited S.A.	-	-
Loans from minority shareholders to KCM, including capitalised interest	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Loan balance at the beginning of the year	35,033	-
Loans received during the year by KCM	-	35,000
Capitalised interest	109	33
	<u>35,142</u>	<u>35,033</u>

As part of the restructuring process, Anglo American injected USD 286,893,000 contributed surplus into ZCI, the majority of which was used to repay in full the amount owed by ZCI to ARH under the Revolving Credit Facility Agreement. On completion of the restructuring, the ZCI Group repaid its loan to ARH and the Revolving Credit Facility was terminated. The loans to KCM from its minority shareholders were also extinguished as part of the restructuring.

	2003	2002
The loans are repayable as follows:		
Between 1 and 5 years	21,142	21,033
Over 5 years	14,000	14,000
	<u>35,142</u>	<u>35,033</u>

The loans are due to the following:

	Class	Principal	Capitalised Interest	Total
ARH Limited S.A.	Unmatched	18,000	-	18,000
ARH Limited S.A.	Matched	8,500	-	8,500
Government of the Republic of Zambia	Subordinated term facility	8,500	142	8,642
		<u>35,000</u>	<u>142</u>	<u>35,142</u>
At December 31, 2003		<u>35,000</u>	<u>142</u>	<u>35,142</u>

Notes to the consolidated financial statements

*for the year ended December 31, 2003
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Unmatched facility

The aggregate principal amount of the unmatched facility available to be drawn from time to time from the date of 17 September 2002 is USD 18,000,000. With the exception of the security indicated below, each amount drawn under the unmatched facility represents an unsecured obligation for the due and punctual payment of the principal and interest. The rights of ARH Limited S.A. ("ARH"), a subsidiary of Anglo American plc, to receive payment in respect of principal, interest and all other amounts under the unmatched facility, in the event of winding up, are subordinated in right of payment to and after all other unsecured creditors of the Group.

The unmatched facility will terminate with regard to any amounts not disbursed on and following the earlier of:

- all insurance claims being finally settled, compromised or determined; or
- the second anniversary of the date of signing of the Exit Deed

Amounts drawn under the unmatched facility carry interest for each interest period at LIBOR.

The loan is secured on the proceeds, if any, receivable from the Company's insurers in respect of the Nchanga Open Pit accident, which occurred on 8 April 2001.

The unmatched loan amount is to be repaid:

- a) Immediately to the extent of any insurance proceeds received by the Company.
- b) From the third anniversary of the date of Exit Deed, in which case the aggregate outstanding amount of the loan at the second anniversary shall be repaid together with interest accrued thereon in tranches of 20% of the aggregate of balance. Amounts and all interest accrued thereon as at the seventh anniversary will be repaid on the seventh anniversary.

At December 31, 2003, the facility had been drawn down in full.

Matched facility

The aggregate principal amount of the matched facility available to the Group is USD 8,500,000.

The term and conditions of the matched facility are identical to those of the unmatched facility.

At December 31, 2003, the facility had been drawn down in full.

Subordinated term facility

The Government of the Republic of Zambia has extended a loan to the Group in an aggregate amount of USD 8,500,000. The facility is secured under second charge over all the Group's rights, title and interest, present and future, to, and in respect of proceeds arising under the insurance claim described above. The facility was intended for general corporate purpose. Interest is payable at LIBOR. As provided for in the facility the Group has elected to capitalise interest. Interest so capitalised does not constitute accrued and unpaid interest and is considered to be a loan advance.

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The facility is repayable in five equal consecutive instalments commencing on the third anniversary of the date of the Anglo Exit Deed of 17 September 2002.

20 Provisions for liabilities and charges

	Terminal benefits	Restoration rehabilitation and environment	Total
At January 1, 2001	44,968	24,483	69,451
Charged to profit and loss	-	7,071	7,071
Arising from acquisition of subsidiary	5,661	15,700	21,361
Payments/terminations	(5,251)	-	(5,251)
	<hr/>	<hr/>	<hr/>
At December 31, 2002 and January 1, 2003	45,378	47,254	92,632
Charged to profit and loss	-	1,917	1,917
Payments/terminations	(5,120)	-	(5,120)
	<hr/>	<hr/>	<hr/>
At December 31, 2003	40,258	49,171	89,429
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Restoration, rehabilitation and environmental liabilities

The restoration, rehabilitation and environmental provision represents the net present value of the best estimate of the expenditure required to settle the obligation charge to rehabilitate environmental disturbances caused by mining operations. These costs are expected to be incurred over the useful lives of the assets.

The movement in the provision is principally as a result of the revision in the useful economic life of the assets from 30 years to 8 years. The cash flows were discounted at 4% (2002: 4%)

Terminal benefits

On March 31, 2000 KCM assumed responsibility for payment of the accrued terminal benefit liability in respect of the transferring of employees from Zambia Consolidated Copper Mines Limited, now known as ZCCM Investments Holdings Plc ("ZCCM").

Notes to the consolidated financial statements

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21 Deferred purchase consideration

	2003	2002
At January 1	-	61,557
Indexation during year	-	355
Converted to share capital	-	(61,912)
	<hr/>	<hr/>
At December 31	-	-
	<hr/> <hr/>	<hr/> <hr/>

Deferred purchase consideration related to the deferred cash payments due to ZCCM of USD 60,000,000 (indexed from completion by reference to the US PPI) payable in six equal annual instalments commencing on January 1, 2006.

Following restructuring of KCM's capital on 17 September 2002, the deferred purchase consideration was converted to equity in KCM.

22 Net Loss on Cash Flow Hedges

In accordance with the Group's policy, the net loss on cash flow hedges relating to periods subsequent to the balance sheet date is recognised in equity until the underlying transaction occurs when it will be transferred to the income statement.

The Group had the following net simple forward pricing commitments outstanding against future production as at December 31, 2003:

	Copper (metric tons)	Price (US\$/lb)
January 2004	3,000	0.88
February 2004	6,000	0.88

23 Capital

	2003	2002
Share capital		
<i>Authorised</i>		
130,000,000 ordinary shares of BD\$0.24 each	31,200	31,200
50,000 deferred shares of BD\$0.24 each	12	12
	<hr/>	<hr/>
	31,212	31,212
	<hr/> <hr/>	<hr/> <hr/>

Notes to the consolidated financial statements

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	2003	2002
<i>Issued</i>		
126,197,362 ordinary shares of BD\$0.24 each	30,287	30,287
50,000 deferred shares of BD\$0.24 each	12	12
	<u>30,299</u>	<u>30,299</u>
Contributed surplus	<u>478,508</u>	<u>478,508</u>
Total Capital	<u>508,807</u>	<u>508,807</u>

Ordinary shares

The ordinary shares have full voting rights and rights to dividends, and will be entitled on a winding up to a distribution equal to their par value and share premium created on their issue.

Deferred shares

The deferred shares do not have any voting rights or right to participate in the profits or assets of the Company, other than the right to receive on the winding up of the Company the amount paid up, up to the amount of 24 Bermudian cents only, after all ordinary shares have received a distribution equal to their par value and any share premium which remains distributable to them.

Reconciliation of changes in contributed surplus

	2003	2002
Contributed surplus as at January 1	478,508	17,355
Contributed surplus from Anglo American (Note 19)	-	286,893
New share capital in KCM (Note 25)	-	478,352
Conversion of intra-group loans included above	-	(246,274)
Movement in minority interest in KCM resulting from restructuring	-	(57,818)
Contributed surplus as at 31 December	<u>478,508</u>	<u>478,508</u>

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24 Subsidiaries

Details of the Company's subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest (%)	Principal activity
Konkola Copper Mines Plc	Republic of Zambia	58 %	Mining
KCM (SmelterCo) Limited	Republic of Zambia	58 %	Ore processing
ZCI Holdings S.A.	Luxembourg	100 %	Holding company
ZCI Holdings Limited	Liberia	100%	Holding company
Zambia Copper Investments (Luxembourg) Limited	Luxembourg	100%	Holding company

25 Restructuring

As discussed in Note 2, negotiations took place between the shareholders, which culminated in Agreements, which were signed on 16 August 2002 and became effective on 17 September 2002. In summary, these agreements provided for the following:

- The exit of Anglo, CDC, and IFC as investors in ZCI and KCM
- The provision by Anglo of USD 30 million as an exit settlement and USD 26.5 million in loans to KCM
- The above loan is to be repaid from any proceeds from Nchanga Open Pit (NOP) insurance claim to which joint conduct in settlement has been agreed
- The provision by GRZ of USD 8.5 million as a loan to KCM
- The conversion of all shareholder loans amounting to USD 291,587,000 into equity in KCM
- The conversion of amounts owed to ZCCM in deferred purchase consideration into equity in KCM
- The exercise of KCM's option over ZCCM (SmelterCo) Limited resulting in that company becoming a wholly owned subsidiary of KCM
- The settlement of the ZCCM (SmelterCo) Limited option exercise amount of USD 7 million by way of issue of shares in KCM
- The assignment to KCM of a loan of USD 81 million plus accrued interest made by GRZ to ZCCM (SmelterCo) Limited in consideration of an issue of shares to GRZ. The shares were subsequently transferred by GRZ to ZCCM
- Agreement on the continuing provision for agreed periods of certain services by Anglo, including procurement, marketing, technical and management service, to provide for a reasonable period of handover

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- The release of Anglo and its management members from any liabilities that might have arisen through their involvement as management save for liability arising from any cover provided by any member of the Anglo Group under an insurance policy
- The restructuring of the ownership of KCM resulting in the ownership being 58% ZCI and 42% ZCCM Investments Holdings plc, with GRZ continuing to retain its golden share;
- The setting up of the Copperbelt Development Foundation whose objective is to promote the diversification of the economy of Copperbelt Province of Zambia and to promote development of the Copperbelt and Mumbwa District and to whom most of the shares in ZCI previously owned by Anglo were transferred;
The setting up of an Employee Share Ownership Scheme to whom 8% of the issued share capital of ZCI was transferred;
- The cancellation of all free and repayable carry rights previously held by ZCCM; and
The extinguishments of the amount of US\$30 million owed by GRZ to ZCI.

26 Capital commitments

	2003	2002
Contracted but not provided	11,934	16,602

The funds required to meet the capital commitments will be generated from the trading activities of the Group, and finance from lenders.

27 Contingencies

KDMP call option

The KDMP Call Option that was granted to ZCCM-IH as part of the completion transactions in 2000 remains in place. The option grants a right to ZCCM-IH, to demand a transfer from the Group to ZCCM-IH, of all the assets formally constituting the Konkola Division of ZCCM together with such improvements, additions and expansions as the company may effect, including the assets comprising the KDMP. ZCCM-IH may only exercise the call option in the event that KCM fails to fulfil its obligations relating to the KDMP Investment Commitment as provided under the Development Agreement entered with GRZ, and further fails to deliver the requisite notices under the said Development Agreement.

Insurance claim

The Group instituted a claim against its insurers for business interruption and replacement of assets lost following the Nchanga Open Pit accident on 8 April 2001. The estimated value of the claim is between USD 26 million and USD 46 million on the basis of the Group's claim assessors and those engaged by Anglo in respect of equipment loss, pit reinstatement and business interruption. The ultimate re-insurers are yet to accept the claim for settlement and the matter is being legally pursued.

Notes to the consolidated financial statements

for the year ended December 31, 2003
expressed in thousands of US Dollars

In the circumstances, USD 9.2 million (2002: USD 8.4 million) has been included as an asset in these consolidated financial statements in respect of the replacement value of damaged equipment.

Other

The Group is involved in various claims and lawsuits incidental to its business. In the opinion of management, these claims and lawsuits in the aggregate will not have an adverse effect on the consolidated financial statements.

28 Related party transactions

The Company has no employees and in consequence utilises the administrative services of Maitland Management Services, SA, which is part of the Maitland Group. Steven Georgala is a director of the Maitland Group. The Maitland Group received fees of USD 207,625 (2002: USD 106,228). Prior to the restructuring on 16 September 2002, the Company utilised the administrative, marketing, and financial services of both Anglo American Luxembourg S.A. and AOL, both wholly-owned subsidiaries of Anglo American plc.

The Company was charged USD nil (2002: USD 118,500) by Anglo group companies for these services. At the financial year end, there were no amounts due to AOL.

The Company has been charged USD nil (2002: USD 102,000) as a commitment fee in respect of the facility granted by ARH. At the year end, no amounts were due to ARH.

The directors of the Company received fees of USD 63,200 (2002: USD 16,989) for their services. In addition, they received expenses of USD 20,828 (2002: USD 16,725). The Company and KCM share certain common directors; in 2003 B Ireton and D Rodier received fees and expenses of USD 34,419 from KCM (2002: USD Nil). R Alley, CEO of KCM, received salary of USD 170,000 from KCM. In 2002, R Mills received salary of USD 301,234 as CEO of KCM. Mr Mills was a director of the Company from 16 September 2002 to 31 January 2003.

29 Pension costs

The Company operates a defined contribution pension scheme for certain of its employees. The total contributions charged to the income statement in respect of the scheme operated by the Company was as follows:

	2003	2002
Pension costs charged to operating expenses	2,072	1,914

Notes to the consolidated financial statements

*for the year ended December 31, 2003
expressed in thousands of US Dollars*

30 Minority Interest

The minority interest represents 42% of the restructured capital and reserves of KCM.

31 Holding company

Prior to the restructuring effective 16 September 2002, the Company's ultimate holding company was Anglo American plc, a company incorporated in the United Kingdom. After the restructuring, there is no ultimate holding company.

Notes to the consolidated financial statements

for the year ended December 31, 2003
expressed in thousands of US Dollars

32 Additional Financial Information

For a more detailed view of the financial position of Zambia Copper Investments and its wholly owned subsidiaries, namely ZCI Holdings S.A., ZCI Holdings Limited and Zambia Copper Investments (Luxembourg) Limited, the following consolidated financial information is provided. Konkola Copper Mines Plc and its 100% owned subsidiary KCM (SmelterCo) Limited have not been consolidated in these figures. Konkola Copper Mines Plc is shown as an investment.

Consolidated statement of earnings for Zambia Copper Investments
and its wholly owned subsidiaries for the year ended
December 31, 2003, expressed in thousands of US Dollars

	2003	2002
Interest income	11	5,216
Interest expense	-	(6,564)
Commitment fees on loan facility	-	(102)
General and administration expenses	(480)	(783)
Value adjustment on investments and loans	(10,021)	(186,767)
Contributions to finance restructuring	-	16,876
Restructuring costs	-	(3,324)
	<hr/>	<hr/>
Loss before taxation	(10,490)	(175,448)
Taxation	(52)	(45)
	<hr/>	<hr/>
Loss after taxation	(10,542)	(175,493)
	<hr/>	<hr/>
Net Loss	(10,542)	(175,493)
	<hr/>	<hr/>

Notes to the consolidated financial statements

for the year ended December 31, 2003
expressed in thousands of US Dollars

Consolidated statement of financial position for Zambia Copper Investments
and its wholly owned subsidiaries for the year ended December 31, 2003
expressed in thousands of US Dollars

	2003	2002
Investment in Konkola Copper Mines plc	40,156	50,178
Current assets		
Cash and short-term investments	988	1,431
Equity Fund Investment	1,220	-
	<u>2,208</u>	<u>1,431</u>
Current liabilities		
Accounts payable and accrued liabilities	188	114
Unclaimed dividends	206	203
	<u>394</u>	<u>317</u>
Net current assets	<u>1,814</u>	<u>1,114</u>
Total assets less current liabilities	<u>41,970</u>	<u>51,292</u>
Net assets	<u>41,970</u>	<u>51,292</u>
Capital and reserves		
Capital	334,547	334,547
Revaluation reserves	1,220	-
Accumulated deficit	(293,797)	(283,255)
Shareholders' equity	<u>41,970</u>	<u>51,292</u>

Notes to the consolidated financial statements

for the year ended December 31, 2003
expressed in thousands of US Dollars

Consolidated statement of changes to equity for Zambia Copper Investments
and its wholly owned subsidiaries for the year ended December 31, 2003
expressed in thousands of US Dollars

	Share capital	Contributed surplus	Accumulated deficit	Revaluation reserve	Total
Balance at December 31, 2001	29,426	17,355	(107,762)	-	(60,981)
Shares issued	873	-	-	-	873
Contributed on restructuring	-	286,893	-	-	286,893
Loss for the year	-	-	(175,493)	-	(175,493)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2002	30,299	304,248	(283,255)	-	51,292
Revaluation on Equity					
Fund Investment	-	-	-	1,220	1,220
Loss for the year	-	-	(10,542)	-	(10,542)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2003	30,299	304,248	(293,797)	1,220	41,970
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the consolidated financial statements

for the year ended December 31, 2003
expressed in thousands of US Dollars

Consolidated statement of financial position for Zambia Copper Investments
and its wholly owned subsidiaries for the year ended December 31, 2003
expressed in thousands of US Dollars

	2003	2002
Cash flow from operating activities		
Cash received from customers	-	-
Cash paid to suppliers and employees	(402)	(4,065)
	<hr/>	<hr/>
Cash generated by operations	(402)	(4,065)
Interest received	11	8
Income tax paid	(52)	(45)
	<hr/>	<hr/>
Net cash (absorbed) by operating activities	(443)	(4,102)
	<hr/>	<hr/>
Cash flow from investing activities		
Cash absorbed by investing activities	-	-
	<hr/>	<hr/>
Cash flow from financing activities		
Shareholders long-term loans received	-	938
Contributions received to finance restructuring	-	3,637
	<hr/>	<hr/>
Cash generated by financing activities	-	4,575
	<hr/>	<hr/>
Net (decrease) / increase in cash	(443)	473
Net cash at the beginning of the year	1,431	958
	<hr/>	<hr/>
Net cash at the end of the year	988	1,431
	<hr/> <hr/>	<hr/> <hr/>
Cash deposits and cash at bank	988	1,431
	<hr/>	<hr/>
Net cash at the end of the year	988	1,431
	<hr/> <hr/>	<hr/> <hr/>

Report of the auditors

To the shareholders of Zambia Copper Investments Limited

We have audited the consolidated statement of financial position of Zambia Copper Investments Limited as at December 31, 2003 and the consolidated statements of earnings, changes to equity, and cash flows for the year then ended as set out on pages 11 to 40. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the group as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte and Touche
Chartered Accountants

Hamilton, Bermuda

March 23, 2004

Notice of Annual General Meeting

Notice is hereby given that the thirty-fourth annual general meeting of the shareholders of Zambia Copper Investments Limited will be held at the offices of Maitland Management Services SA, 6 rue Adolphe Fischer, Luxembourg, on Wednesday May 5, 2004 at 10h00 for the following business:

1. To consider the financial statements and the reports of the directors and auditors for the year to December 31, 2003.
2. To propose the re-election of B. Ireton, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.
3. To propose the re-election of D.D. Rodier, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.
4. To propose the re-election of S. Georgala, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.
5. To approve the remuneration of the directors for 2003.
6. To reappoint the auditors and to fix their remuneration.
7. Any other business properly tabled before the meeting.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the company's transfer secretaries, Computershare Limited, 70 Marshall Street, Johannesburg, 2001 or posted to the transfer secretaries at P O Box 61051, Marshalltown, 2107, South Africa, so as to be received by not more than 48 hours before the time fixed for the holding of the meeting at 10h00 on 5 May 2004. Proxy forms should only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

Notice of Annual General Meeting

Continued

On a show of hands, every member of the company present in person or represented by proxy shall have one vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with “own name” registration should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

A form of proxy is enclosed with this annual report.

By order of the board of directors

John B. Mills
Secretary

Dated: 23 March 2004

Company details

Directors

B Ireton (*Chairman*)

D D Rodier

S Georgala

Secretary

J B Mills

Registered Office

Clarendon House

2 Church Street

Hamilton

Bermuda

Website

www.zci.lu

Transfer Secretaries

In South Africa

Computershare Limited

70 Marshall Street

Johannesburg 2001

South Africa

(P O Box 61051

Marshalltown 2107)

In the United Kingdom

Computershare Investor Services PLC

P O Box 82, The Pavilions

Bridgwater Road

Bristol BS99 7NH

United Kingdom

French Listing agent

Euro Emetteurs Finance

48 Boulevard des Batignolles

75850 Paris Cedex 17

France

Auditors

Deloitte & Touche

Corner House

Church and Parliament Streets

Hamilton HMFCC

Bermuda

South African Sponsor

Rand Merchant Bank, A division of

FirstRand Bank Limited

Corporate Finance, 1 Merchant Place,

Cnr Fredman Drive & Rivonia Road

Sandton, 2146, South Africa