# Chairman's report

The year under review was one of difficulty and uncertainty for your company but I am pleased to report that, as a result of a successful restructuring, we were able both to strengthen the Balance Sheet and set a new and more positive course for the future.

As you will be aware, we were faced in January of 2002 with an announcement by Anglo American plc (Anglo American) that after less than two years involvement as a majority shareholder, it had decided to withdraw from its investment and that it would make no additional funding available to our subsidiary, Konkola Copper Mines plc (KCM) beyond its existing commitments at the time of its original investment in March 2000.

Anglo American also set a deadline for the withdrawal of its management team and certain essential services and stated that a managed closure of KCM's operations was its 'preferred option'. This would have had predictably negative and serious consequences both for our shareholders and for the economy of Zambia.

A lengthy period of negotiation followed as a result of which agreement was reached in August 2002 with the shareholders of KCM and The Government of the Republic of Zambia (GRZ) upon a restructuring whereby Anglo American agreed to relinquish control of the company and to:

- transfer a shareholding of 41.4% in your company without consideration to the newly formed Copperbelt Development Foundation (CDF), whose objectives are, inter alia, to promote diversification of the economy of the Copperbelt Province of Zambia and to promote the social development, relieve poverty and contribute to the provision of health, education and other social services in the Copperbelt Province and Mumbwa District of the Central Province of Zambia, and to

- transfer the balance of its shareholding totalling 8% in your company without consideration to an Employee Share Ownership Trust (ESOT).

In addition and as part of the overall restructuring agreement, Anglo American undertook, inter alia, to:

- facilitate the repayment of the loan extended to ZCI by the Anglo American group;
- make an exit payment of USD 30 million to KCM; and
- provide USD 26.5 million as loans to KCM on favourable terms,

and at the same time:

- CDC Financial Services (Mauritius) Limited (CDC) and International Finance Corporation (IFC) agreed to exchange their respective shares in KCM for new shares in ZCI and transfer these new ZCI shares (2.9% of ZCI) to the CDF;
- the Government of the Republic of Zambia agreed to provide USD 8.5 million as a loan to KCM;
- KCM exercised an option to acquire ZCCM (SmelterCo) Limited; and
- all loan amounts owed to shareholders of KCM were converted to KCM equity.

As a consequence of this restructuring, your company is now owned 47.7% by public shareholders, 44.3% by the CDF and 8% by the ESOT. The exit of Anglo American and the connected withdrawal of CDC and IFC as shareholders of KCM, results in KCM now being owned 58% by your company and 42% by ZCCM Investment Holdings PLC. The Government of the Republic of Zambia continues to retain its golden share in KCM.

The restructuring has had the effect of considerably strengthening the company's Balance Sheet. KCM's Balance Sheet was also strengthened as a result and provided thereafter a basis for its continued operation pending the introduction of new management, the development of a new business plan and the introduction of additional finance.

As a further consequence of this restructuring, there has been a fundamental reorganisation of the Board, full details of which are contained in the Report of the Directors.

I was appointed as a director of the company on 27th September 2002 and as Chairman following the completion of the restructuring agreement. I also serve as Chairman of KCM and as a representative of the United Kingdom Department for International Development on the Board of the CDF. Mr David Rodier, who was appointed to the Board of CDF by the International Centre for Mining and Metallurgy, was also appointed as a director of your company and of KCM. Mr Steven Georgala was appointed as an independent director. Mr Robin Mills, who has now returned to Anglo American, served as a director during the latter part of the year and was replaced by Mr Russell Alley the newly appointed Chief Executive Officer of KCM on 1 February 2003. Russell has long experience of the international mining business having previously served, inter alia, with Cyprus Amax, Phelps Dodge and Southern Peru Copper.

On your behalf, I would like to thank all of the new members of the Board for their willingness to commit themselves to the future development of the company and also to record our appreciation to all of those who served on the Board during the year.

During 2002, ZCI incurred a net loss of USD 350 million due to depressed metal prices throughout the year and a combination of negative impairment adjustments and restructuring costs. Annual production of copper was up over 12%. In spite of this creditable performance in production terms, market conditions continue to be difficult as the average price for copper was US cents 71.5 per pound (2001: US cents 71.6 per pound).

Over recent months, your Board has undertaken a strategic review of the future prospects for the group in order to establish a basis for continued viable commercial operations by development of credible business plans.

In order to ameliorate the risks of current market conditions, your Board is in the process of seeking a strategic equity partner in KCM to replace Anglo American and to provide further technical assistance and financial support in the longer term.

Since the completion of the restructuring just six months ago, KCM, under our direction:

- has undertaken a complete technical and strategic review;
- is putting in place a new twenty year life of mine plan and related business plans;
- successfully recruited a new Chief Executive Officer and management team; and
- has undertaken an extensive international review of potential strategic equity partners.

In recent weeks, the Board of KCM has made good progress in its review of potential strategic equity partners which involved discussions with 47 companies worldwide and elicited expressions of interest from nearly 20 companies.

Following completion of a prequalification process, 8 companies who met all of the criteria set were invited to participate. Bidders were subsequently involved in an extensive due diligence process following which competing bids were submitted to shareholders of KCM. These proposals are now under consideration by shareholders of KCM. We will keep shareholders informed of developments in this connection and if proposals are forthcoming which meet our requirements and acceptable commercial terms are agreed, proposals will be submitted to shareholders for approval.

Your Board is satisfied that the steps which have been taken to restructure and stabilise the business in recent months together with the adoption of coherent long term plans for the future of KCM and the introduction of new management offer the prospect of a positive future for your company.

The year ahead will not be without its challenges but I believe that the measures which we have put in place will begin to show results in the year ahead and provide a realistic platform from which the business can be developed.

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 it's holding of 58% of the share capital of Konkola Copper Mining (KCM), a Zambian registered mining company.

### Going concern

On January 24, 2002, Anglo American plc ("Anglo") announced that it would not provide funding to KCM beyond its outstanding commitments and intended to withdraw from its investment in KCM. Since that date, the shareholders of KCM, including the Government of the Republic of Zambia ("GRZ"), 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.

These discussions are substantially complete and indicate 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.

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

Lower projected copper prices, combined with the fact that KCM is not likely in the foreseeable future to be able to raise the funding required to implement KDMP have impacted on the projected life of the Konkola mine and the values of KCM's assets. In the light of the proposed restructuring and the funding available to KCM as detailed in the circular of August 23, 2002, the directors had evaluated the assets and determined the need for an impairment to be reflected in the accounts for the six months ended June 30, 2002. The impairment of the assets was determined to amount to USD 249,634,000 at June 30, 2002. In addition, a further impairment of USD 57,801,000 has been reflected in the December 31, 2002 accounts for the goodwill that arose on the acquisition of KCM (SmelterCo) Limited.

### Dividends

No dividends were paid or proposed by ZCI in respect of the year ended December 31, 2002.

## Directors and officers

Since December 31, 2001, the following changes to the composition of the Board occurred:

***Resignations***

S R Thompson (Resigned 16 September 2002)
P M Baum (Resigned 16 September 2002)
C J Colebank (Resigned 27 September 2002)
G B R Collis (Resigned 16 September 2002)
H R Fraser (Resigned 16 September 2002)
M J Gordon (Resigned 16 September 2002)
N Jordan (Resigned 16 September 2002)
A W Lea (Resigned 16 September 2002)
W A Nairn (Resigned 16 September 2002)

***Appointments***

B Ireton (Chairman) (Appointed 27 September 2002)
R G Mills (Appointed 16 September 2002, Resigned 31 January 2003)
R.D. Alley (Appointed 31 January 2003)
D D Rodier (Appointed 27 September 2002)
S Georgala (Appointed 16 September 2002)
J B Mills (Appointed 16 September 2002, Resigned 27 September 2002)

S R Thompson resigned as Chairman on 16 September 2002 and B Ireton was appointed as Chairman on 20 November 2002.

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-election the Board proposes to re-elect B Ireton as Chairman.

## Directors' interests

At December 31, 2002 the directors, held, non-beneficially, no shares in ZCI 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, 2002

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, 2002 was:

| | **Percentage holding** |
|---|---|
| Non-public shareholders | |
| Copperbelt Development Foundation | 44.3% |
| KCM Employee Share Ownership Trust | 8.0% |
| Public shareholders | 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:

| | **Number of shares** | **Percentage holding** |
|---|---|---|
| Copperbelt Development Foundation | 55,932,533 | 44.3% |
| Sicovam S.A. | 41,621,790 | 33.0% |
| The 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 April 17, 2002. 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, 11 June 2003. The notice convening the meeting is set out on page 34 of this report.

By Order of the Board

John Mills
Company Secretary
Luxembourg
April 16, 2003

# 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 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 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 judgements and estimates and has complied with all statutory requirements and all applicable accounting standards, including International Accounting Standards. As stated in the "Going concern" paragraph of the Report of the directors and in note 2 to the Notes of the consolidated financial statements, following the announcement on January 24, 2002 a KCM Shareholders' Steering Committee had been established. Since that date, the shareholders of KCM, including the Government of the Republic of Zambia ("GRZ"), 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. These discussions are substantially complete and indicate 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**
The Company's board of directors comprises 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 directors are entitled to obtain independent professional advice at the Company's expense, should they deem this necessary.

The KCM board of directors, which meets on a quarterly basis, 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.

GRZ is entitled to certain rights through it's holding of one special share of KCM, including the requirement to grant it's written consent before any material change in the nature of KCM's business and to voluntarily wind up KCM.

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.

**SHE Committee**
The Safety, Health and Environment ("SHE") 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 KCM in working towards internationally accepted standards and best practices. The Committee is also responsible for addressing SHE risks and impacts in a systematic, comprehensive and businesslike manner and for promoting good relationships with the communities in which the Company operates. During the year the Company finalized Environmental and Social Management Plans with the GRZ and the Shareholders in line with best practice.

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

**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, 2002*
*expressed in thousands of US Dollars*

| | Notes | 2002 | 2001 |
|---|---|---|---|
| Turnover | 4,5 | 394,096 | 370,689 |
| Cost of sales | | (344,463) | (406,788) |
| Gross Profit / (Loss) | | 49,633 | (36,099) |
| Other operating expenses | | (68,986) | (27,106) |
| Depreciation | | (30,272) | (20,243) |
| Impairment of tangible fixed assets | 11 | (240,369) | - |
| Loss from operations | | (289,994) | (83,448) |
| Other income | | 4,696 | 4,711 |
| Interest income | | 17 | 1,589 |
| Interest expense | | (9,516) | (21,916) |
| Commitment fees on loan facility | | (102) | (1,680) |
| General and administration expenses | | (784) | (1,073) |
| Amortisation of goodwill | | - | (565) |
| Impairment of goodwill | 11 | (66,066) | - |
| Contributions to finance restructuring | 6 | 16,876 | - |
| Restructuring costs | | (4,687) | - |
| Loss before taxation | | (349,560) | (102,382) |
| Taxation | 8 | (193) | (3,883) |
| Loss after taxation | | (349,753) | (106,265) |
| Loss attributable to minority interest | | - | 20,296 |
| Net Loss | | (349,753) | (85,969) |

| | | *per ordinary share in US cents* | |
|---|---|---|---|
| Headline loss before exceptional items and amortisation and impairment of goodwill | 7 | (44.90) | (69.68) |
| Net loss | 7 | (282.94) | (70.14) |

# Consolidated statement of financial position

*for the year ended December 31, 2002*
*expressed in thousands of US Dollars*

| | Notes | 2002 | 2001 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Intangible assets | 9 | - | 8,265 |
| Tangible fixed assets | 10 | 100,195 | 260,756 |
| | | 100,195 | 269,021 |
| **Investments and advances** | 12 | - | 45,932 |
| | | 100,195 | 314,953 |
| **Current assets** | | | |
| Stocks | 13 | 88,308 | 105,462 |
| Accounts receivable | 14 | 46,658 | 68,924 |
| Cash and short-term investments | 15 | 39,126 | 4,772 |
| | | 174,092 | 179,158 |
| **Current liabilities** | | | |
| Short term loans and bank overdrafts | 16 | 5,824 | 98,566 |
| Accounts payable and accrued liabilities | 17 | 53,171 | 62,172 |
| | | 58,995 | 160,738 |
| Net current assets | | 115,097 | 18,420 |
| **Total assets less current liabilities** | | 215,292 | 333,373 |
| **Long term liabilities** | | | |
| Long term loans | 18 | (35,033) | (263,346) |
| Provisions | 19 | (92,632) | (69,451) |
| Deferred purchase consideration | 20 | - | (61,557) |
| Minority interest | 27 | (36,335) | - |
| **Net assets / (liabilities)** | | 51,292 | (60,981) |
| **Capital and reserves** | | | |
| Capital | 21 | 508,807 | 46,781 |
| Accumulated deficit | | (457,515) | (107,762) |
| Shareholders' equity/(deficit) | | 51,292 | (60,981) |

Approved by the board of directors, dated April 16, 2003:

# Consolidated statement of earnings
*for the year ended December 31, 2002*
*expressed in thousands of US Dollars*

B. Ireton, director

S. Georgala, director

# Consolidated statement of changes to equity

*for the year ended December 31, 2002*
*expressed in thousands of US Dollars*

| | Share capital | Contributed surplus | Accumulated deficit | Total |
|---|---|---|---|---|
| **Balance at 31 December 2000** | **29,426** | **17,355** | **(21,793)** | **24,988** |
| Loss for the year | - | - | (85,969) | (85,969) |
| **Balance at 31 December 2001** | **29,426** | **17,355** | **(107,762)** | **(60,981)** |
| Shares issued (note 21) | 873 | - | - | 873 |
| Contributed on restructuring (note 21) | - | 461,153 | - | 461,153 |
| Loss for the year | - | - | (349,753) | (349,753) |
| **Balance at 31 December 2002** | **30,299** | **478,508** | **(457,515)** | **51,292** |

## Consolidated statement of cash flows

*for the year ended December 31, 2002*
*expressed in thousands of US Dollars*

| | Notes | **2002** | 2001 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash received from customers | | 398,559 | 361,945 |
| Cash paid to suppliers and employees | | (378,425) | (465,756) |
| Cash generated / (absorbed) by operations | | 20,134 | (103,811) |
| Interest received | | - | 356 |
| Interest paid | | (1,343) | (5,314) |
| Income tax paid | | (80) | (351) |
| Net cash generated / (absorbed) by operating activities | | 18,711 | (109,120) |
| **Cash flow from investing activities** | | | |
| Investment in KCM | | - | (2,832) |
| Proceeds from disposal of tangible fixed assets | | 334 | - |
| Capital expenditure | | (58,277) | (107,297) |
| Cash absorbed by investing activities | | (57,943) | (110,129) |
| **Cash flow from financing activities** | | | |
| Proceeds from external borrowings | | - | 154,000 |
| Advances by minority shareholders in KCM | | - | 21,000 |
| 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) | - |
| Cash generated by financing activities | | 106,450 | 175,000 |
| **Net increase / (decrease) in cash** | | 67,218 | (44,249) |
| Net (debt)/cash at the beginning of the year | | (33,916) | 10,333 |
| **Net cash / (debt) at the end of the year** | | 33,302 | (33,916) |
| Cash deposits and cash at bank | 15 | 39,126 | 4,650 |
| Bank overdraft – unsecured | 16 | (5,824) | (38,566) |
| **Net cash / (debt) at the end of the year** | | 33,302 | (33,916) |

## 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 9,919 permanent employees in 2002 (2001:9,611).

## 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.

As stated in the "Going concern" paragraph of the Report of the directors, 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 22.

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 Company are denominated.

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 fair values 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 profit and loss account.

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

*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.

*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 b 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.

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.

*expressed in thousands of US Dollars*

## 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:

| | **2002** | **2001** |
|---|---|---|
| Copper | 355,591 | 325,132 |
| Cobalt | 30,603 | 44,511 |
| Other | 7,902 | 1,046 |
| | 394,096 | 370,689 |

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:

| | **2002** | **2001** |
|---|---|---|
| Sales revenues | | |
| Asia | 321,556 | 257,870 |
| Europe | 63,416 | 60,652 |
| Rest of Africa | 7,653 | 52,167 |
| America | 1,471 | - |
| | 394,096 | 370,689 |

## 6 Contributions to finance restructuring

A surplus of USD 16,876,000 resulted from the restructuring as explained in Note 23. 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.

*expressed in thousands of US Dollars*

## 7 Loss per share

| | 2002 | 2001 |
|---|---|---|
| **Net loss attributable to shareholders (USD '000)** | **349,753** | **85,969** |
| Add exceptional income: | | |
| Contributions to finance restructuring | 16,876 | - |
| Less exceptional expenses: | | |
| Impairment of tangible fixed assets | (240,369) | - |
| Amortisation of goodwill | - | (565) |
| Impairment of goodwill | (66,066) | - |
| Restructuring costs | (4,687) | - |
| **Headline loss before exceptional items and amortisation and impairment of goodwill** | **55,507** | **85,404** |
| **Weighted average number of shares in issue (thousands)** | **123,616** | **122,560** |
| Headline loss per share (US cents per share) | 44.90 | 69.68 |
| Basic net loss per share (US cents per share) | 282.94 | 70.14 |

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

| | 2002 | 2001 |
|---|---|---|
| Current income tax based on interest income for year | 193 | 89 |
| Deferred tax | - | 3,794 |
| | 193 | 3,883 |
| Payable in respect of year | 193 | 89 |
| Payable in respect of subsidiary | 28 | - |
| (Receivable) / Payable in respect of previous year | (18) | 244 |
| Paid during year | (80) | (351) |
| Included in Accounts payable/(receivable) | 123 | (18) |

(Notes 17 and 14 respectively)

*expressed in thousands of US Dollars*

KCM has losses for taxation purposes of approximately USD 580,880,000 (2001: USD 323,552,000) 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:

| | 2002 | 2001 |
|---|---|---|
| Tax effect of timing differences due to: | | |
| Capital allowance in excess of depreciation | 51,764 | 45,934 |
| Other timing differences | 6,003 | 6,548 |
| Total potential liability | 57,767 | 52,482 |
| Tax loss for the year | (145,220) | (80,888) |
| | 87,453 | 28,406 |
| Deferred tax asset not provided for | (87,453) | (28,406) |

### 9 Intangible asset

| | | 2002 | 2001 |
|---|---|---|---|
| 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) | | |
| Net current assets | (1,562) | | |
| Provisions for liabilities | 21,361 | | |
| Loans | 87,853 | | |
| | 50,801 | | |
| Consideration | 7,000 | | |
| Goodwill acquired from ZCCM (SmelterCo) Limited | | 57,801 | - |
| | | 67,055 | 9,254 |
| Less: accumulated amortisation | | (989) | (989) |
| Less: impairment of goodwill | | (66,066) | - |
| | | - | 8,265 |

*expressed in thousands of US Dollars*

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 2000), 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 development equipment | Leasehold land and buildings | Plant, equipment, and other | Capital work in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1, 2002 | **67,733** | **22,576** | **166,111** | **44,655** | **301,075** |
| Reclassifications | - | - | (8,717) | 8,717 | - |
| Impairment adjustment (note 11) | (50,534) | (27,536) | (150,473) | (11,826) | (240,369) |
| Acquisition of subsidiary (note 9) | - | 3,601 | 26,046 | 27,204 | 56,851 |
| Additions | - | - | - | 58,031 | 58,031 |
| Interest capitalised | - | - | - | 246 | 246 |
| Transfers | 23,139 | 6,232 | 59,223 | (88,594) | - |
| Disposals | (4,365) | (248) | (3,394) | - | (8,007) |
| **At December 31, 2002** | **35,973** | **4,625** | **88,796** | **38,433** | **167,827** |
| **Accumulated Depreciation** | | | | | |
| At January 1, 2002 | 2,305 | 2,046 | 35,968 | - | 40,319 |
| Charge for year | 4,509 | 2,610 | 23,153 | - | 30,272 |
| Eliminated on disposal | - | (31) | (2,928) | - | (2,959) |
| **At December 31, 2002** | **6,814** | **4,625** | **56,193** | **-** | **67,632** |
| **Net book value** | | | | | |
| **At December 31, 2002** | **29,159** | **-** | **32,603** | **38,433** | **100,195** |
| At December 31, 2001 | 65,428 | 20,530 | 130,143 | 44,655 | 260,756 |

*expressed in thousands of US Dollars*

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.

**11 Impairment adjustments**

| | 2002 | 2001 |
|---|---|---|
| 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%. | 248,634 | - |
| 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. | 57,801 | - |
| | 306,435 | - |

**12 Investments and advances**

| | 2002 | 2001 |
|---|---|---|
| Loans | | |
| Deferred consideration owing by the GRZ | - | 30,779 |
| Loan to ZCCM, including capitalised interest | - | 15,153 |
| | - | 45,932 |

*expressed in thousands of US Dollars*

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.

## 13 Stocks

| | 2002 | 2001 |
|---|---|---|
| Finished and process metal | 62,278 | 73,078 |
| Consumable stores | 26,030 | 32,384 |
| | 88,308 | 105,462 |

Stocks of finished and process copper, at cost of USD 64,625,000 (2001 – USD 91,798,000) have been included in the above amount at a net realisable value of USD 57,190,000 (2001 - US$68,762,000). Write down of these stocks of USD 7,435,000 (2001 : USD 23,036,000) have been accounted for in cost of sales.

Consumable stores are stated net of a provision for obsolescence of USD 4,894,000 (2001 - USD 6,146,000).

## 14 Accounts receivable

| | 2002 | 2001 |
|---|---|---|
| Trade debtors | 14,561 | 19,024 |
| Other debtors and prepayments | 31,719 | 47,048 |
| Staff costs | 378 | 2,834 |
| Taxation recoverable (note 8) | - | 18 |
| | 46,658 | 68,924 |

*expressed in thousands of US Dollars*

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.

### 15 Cash and short-term investments

| | 2002 | 2001 |
|---|---|---|
| Call deposits and cash at bank | 39,126 | 4,650 |
| Equity fund | - | 122 |
| | 39,126 | 4,772 |

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.

### 16 Short term loans and bank overdrafts

| | 2002 | 2001 |
|---|---|---|
| Bank overdrafts | 5,824 | 38,566 |
| Short term loan | - | 60,000 |
| | 5,824 | 98,566 |

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

The short tem loan was unsecured and was repaid during the year. Interest was calculated to aggregate USD LIBOR plus 1.25% plus mandatory costs.

*expressed in thousands of US Dollars*

### 17 Accounts payable and accrued liabilities

| | 2002 | 2001 |
|---|---|---|
| Trade creditors | 40,321 | 50,962 |
| Other creditors and accrued expenses | 12,727 | 7,704 |
| Amounts owed to related companies | - | 3,506 |
| Taxation payable (note 8) | 123 | - |
| | 53,171 | 62,172 |

### 18 Long term loans

| | 2002 | 2001 |
|---|---|---|
| Loan from A.R.H. Limited S.A. to ZCI | - | 190,000 |
| Capitalised interest and commitment fee thereon | - | 23,706 |
| Amount due to A.R.H Limited S.A. | - | 213,706 |
| Loans from minority shareholders to KCM, including capitalised interest | - | 49,640 |
| | - | 263,346 |
| Loans received during the year by KCM | 35,000 | - |
| Capitalised interest | 33 | - |
| | 35,033 | 263,346 |

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.

| | 2002 | 2001 |
|---|---|---|
| The loans are repayable as follows: | | |
| Between 1 and 5 years | 21,033 | |
| Over 5 years | 14,000 | - |
| | 35,033 | - |

*expressed in thousands of US Dollars*

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 | 33 | 8,533 |
| At December 31, 2002 | | 35,000 | 33 | 35,033 |

**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, 2002, 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.

*expressed in thousands of US Dollars*

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

At December 31, 2002, 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.

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.

### 19 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) |
| At December 31, 2002 | 45,378 | 47,254 | 92,632 |

*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% (2001:4%)

*Terminal benefits*

*expressed in thousands of US Dollars*

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”).

**20 Deferred purchase consideration**

| | 2002 | 2001 |
|---|---|---|
| At January 1. | 61,557 | 60,000 |
| Indexation during year | 355 | 1,557 |
| Converted to share capital | (61,912) | - |
| At December 31 | - | 61,557 |

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.

**21 Capital**

| | 2002 | 2001 |
|---|---|---|
| Share capital | | |
| *Authorised* | | |
| 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 |
| | 31,212 | 31,212 |
| *Issued* | | |
| 126,197,362 ordinary shares of BD$0.24 each (2001: 122,559,900 ordinary shares) | 30,287 | 29,414 |
| 50,000 deferred shares of BD$0.24 each | 12 | 12 |
| | 30,299 | 29,426 |
| Contributed surplus | 478,508 | 17,355 |

*expressed in thousands of US Dollars*

| | | |
|---|---|---|
| Total Capital | 508,807 | 46,781 |

*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*

| | 2002 | 2001 |
|---|---|---|
| Contributed surplus as at January 1 | 17,355 | 17,355 |
| Contributed surplus from Anglo American (Note 18) | 286,893 | - |
| New share capital in KCM (Note 23) | 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 | 478,508 | 17,355 |

**22 Subsidiaries**

Details of the Company's subsidiaries at 31 December 2002 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 |

*expressed in thousands of US Dollars*

| | | | |
|---|---|---|---|
| Zambia Copper Investments (Luxembourg) Limited | Luxembourg | 100% | Holding company |

**23 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
- 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.

*expressed in thousands of US Dollars*

**24 Capital commitments**

| | 2002 | 2001 |
|---|---|---|
| Contracted but not provided | 16,602 | 49,047 |

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

**25 Contingencies**

*KDMP call option*
The Group has granted to ZCCM a call option to require the Group to transfer to ZCCM all the assets formerly constituting the Konkola Division of ZCCM together with such improvements, additions and expansions as the Group may effect, including the assets comprising the KDMP. ZCCM may exercise the call option at anytime if KCM is unable to fulfil its obligation under the Development Agreement with the GRZ, and fails to deliver the required notices under the Agreements, to proceed or continue with the development of the KDMP.

*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. In the circumstances, 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.

**26 Related party transactions**

The Company has no employees and in consequence utilises the administrative services of Maitland Management Services, SA. 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 118,500 (2001: USD 158,000) 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 102,000 (2001: USD 1,680,000) 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 16,989 (2001: USD 32,400) for their services.

## 27 Minority Interest

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

## 28 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.

# 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, 2002 and the consolidated statements of earnings, changes to equity, and cash flows for the year then ended as set out on pages 9 to 32. 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, 2002 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

April 16, 2003

# Notice of Annual General Meeting

Notice is hereby given that the thirty-third 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 11 June 2003 at 10h00am for the following business:

1. To consider the financial statements and the reports of the directors and auditors for the year to December 31, 2002.

2. To propose the re-election of B. Ireton, R. Alley, D.D. Rodier and S. Georgala as the directors.

3. To reappoint Deloitte & Touche as auditors and to fix their remuneration.

Shareholders who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name are entitled to attend and vote at the meeting, and are entitled to appoint a proxy or proxies to attend, speak, and vote in his stead. The person so appointed need not be a shareholder. Proxy forms should be forwarded to reach the registered office of the Company not less than 48 hours before the time fixed for the holding of the meeting.

Shareholders who have dematerialised their shares, other than in own name registration should contact their Central Securities Depository Participant (CSDP) or broker to make the relevant arrangements to attend/vote at the meeting in terms of their agreements with their CSDP or broker.

A form of proxy is enclosed with this annual report.

By order of the board of directors

John B. Mills
Secretary

Dated: 24 April 2003

## Company details

**Directors**
B Ireton *(Chairman)*
D D Rodier
R Alley
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 Investor Services 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