

Zambia Copper Investments Limited (“the Company”)
Incorporated in Bermuda and registered in the Republic of South Africa as an external company.
Registration no. EC 1626)
Share code: ZCI
ISIN : BMG988431240

(All figures expressed in thousands of US Dollars, unless stated otherwise)

Consolidated statement of earnings

	2002	2001
	(USD'000)	(USD'000)
Turnover	394,096	370,689
Cost of sales	(344,463)	(406,788)
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Gross Profit / (Loss)	49,633	(36,099)
Other operating expenses	(68,986)	(27,106)
Depreciation	(30,272)	(20,243)
Impairment of tangible fixed assets	(240,369)	-
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	(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	(66,066)	-
Contributions to finance restructuring	16,876	-
Restructuring costs	(4,687)	-
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Loss before taxation	(349,560)	(102,382)
Taxation	(193)	(3,883)
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Loss after taxation	(349,753)	(106,265)
Loss attributable to minority interest	-	20,296
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Net Loss	<u>(349,753)</u>	<u>(85,969)</u>
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	<i>per ordinary share in US cents</i>	
Headline loss before exceptional items and amortisation and impairment of goodwill	(44.90)	(69.68)
Net loss	(282.94)	(70.14)

Consolidated statement of financial position

2002 **2001**

	(USD'000)	(USD'000)
Fixed Assets		
Intangible assets	-	8,265
Tangible fixed assets	100,195	260,756
	<u>100,195</u>	<u>269,021</u>
Investments and advances	-	45,932
	<u>100,195</u>	<u>314,953</u>
Current assets		
Stocks	88,308	105,462
Accounts receivable	46,658	68,924
Cash and cash equivalents	39,126	4,772
	<u>174,092</u>	<u>179,158</u>
Current liabilities		
Short term loans and bank overdrafts	5,824	98,566
Accounts payable and accrued liabilities	53,171	62,172
	<u>58,995</u>	<u>160,738</u>
Net current assets	<u>115,097</u>	<u>18,420</u>
Total assets less current liabilities	215,292	333,373
Long term liabilities		
Long term loans	(35,033)	(263,346)
Provisions	(92,632)	(69,451)
Deferred purchase consideration	-	(61,557)
Minority interest	(36,335)	-
	<u>51,292</u>	<u>(60,981)</u>
Net assets / (liabilities)	<u>51,292</u>	<u>(60,981)</u>
Capital and reserves		
Capital	508,807	46,781
Accumulated deficit	(457,515)	(107,762)
Shareholders' equity/(deficit)	<u>51,292</u>	<u>(60,981)</u>

Consolidated statement of changes to equity

	Share capital (USD'000)	Contributed surplus (USD'000)	Accumulated deficit (USD'000)	Total (USD'000)
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	873	-	-	873
Contributed on restructuring	-	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
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Consolidated statement of cash flows

	2002 (USD'000)	2001 (USD'000)
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	39,126	4,650
Bank overdraft – unsecured	(5,824)	(38,566)
Net cash / (debt) at the end of the year	33,302	(33,916)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statement presentation

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.

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.

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 operations 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 financial information has been audited by the Company's auditors, Deloitte & Touche, (Bermuda), whose unqualified audit opinion is available for inspection at the offices of the Company's administrators, Maitland Management Services SA, 6 rue Adolphe Fischer, L-1520, Luxembourg.

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
	(USD'000)	(USD'000)
Copper	355,591	325,132
Cobalt	30,603	44,511
Other	7,902	1,046
	<u>394,096</u>	<u>370,689</u>

The Group has one reportable segment, its principal activity.

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
	(USD'000)	(USD'000)
Sales revenues		
Asia	321,556	257,870
Europe	63,416	60,652
Rest of Africa	7,653	52,167
America	1,471	-
	<u>394,096</u>	<u>370,689</u>

Contributions to finance restructuring

A surplus of USD 16,875,662 resulted from the restructuring effective 17 September 2002. 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.

Loss per share

	2002 (USD'000)	2001 (USD'000)
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)	-
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Headline loss before exceptional items and amortisation and impairment of goodwill	55,507	85,404
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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.

Impairment adjustment

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 in the amount of USD 248,634,000 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) 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). Accordingly, a provision in the amount of USD 57,801,000 for impairment of the goodwill has been raised in accordance with the requirements of IAS 36: Impairment of Assets.

Long term loans

2002	2001
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	(USD'000)	(USD'000)
Loan from A.R.H. Limited S.A. to ZCI	-	190,000
Capitalised interest and commitment fee thereon	-	23,706
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Amount due to A.R.H Limited S.A.	-	213,706
Loans from minority shareholders to KCM, including capitalised interest	-	49,640
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	-	263,346
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Loans received during the year by KCM	35,000	-
Capitalised interest	33	-
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	35,033	263,346
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As part of the restructuring process, Anglo American injected USD 286,892,675 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.

Report to shareholders

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

As you will be aware, the company was 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 the company's 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 the company's 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 the 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 the 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, the 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 the 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.

Mr Barrie Ireton was appointed as a director of the company on 27th September 2002 and as Chairman following the completion of the restructuring agreement. Mr Ireton also serves 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 the 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.

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, the 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, the 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:

- 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 world-wide and elicited expressions of interest from nearly 20 companies.

Following completion of a pre-qualification 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. The company will keep shareholders informed of

developments in this connection and if proposals are forthcoming which meet the company's requirements and acceptable commercial terms are agreed, proposals will be submitted to shareholders for approval. The 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 the company.

The year ahead will not be without its challenges but the Board believes that the measures which it has put in place will begin to show results in the year ahead and provide a realistic platform from which the business can be developed.

The Board expects that the company's audited financial statements will be posted to shareholders within the next two weeks.

On behalf of the Board of Directors

R Alley
Director

S Georgala
Director

Luxembourg
30 April 2003