
Zambia Copper Investments Limited
(Registered in Bermuda)
JSE code: ZCI
ISIN: BMG988431240
("ZCI" or "the company")

THE INTRODUCTION OF A STRATEGIC EQUITY PARTNER FOR KONKOLA COPPER MINES PLC AND FURTHER CAUTIONARY ANNOUNCEMENT

1. Introduction

Further to the cautionary announcements published over the period 16 May 2003 to 23 July 2004, Rand Merchant Bank ("RMB") is authorised to announce that ZCI, the Government of the Republic of Zambia ("GRZ"), ZCCM Investments Holdings plc ("ZCCM-IH"), Konkola Copper Mines plc ("KCM") and Vedanta Resources plc ("Vedanta") (collectively, "the Parties") have reached agreement on the terms of an investment by Vedanta into KCM ("the Vedanta investment"), subject to the fulfilment of certain conditions precedent set out in paragraph 4 below ("conditions precedent").

2. Background and rationale for the Vedanta investment

Concomitant with the exit of Anglo American plc from ZCI (and indirectly KCM) in September 2002, the KCM shareholders and GRZ embarked on a process to ensure the long-term sustainability of KCM. It was agreed that the introduction of a new strategic equity partner was the most appropriate route to follow to secure the future of KCM and to address two key issues, namely:

- the provision of technical expertise and management experience; and
- funding support and financial stability for KCM.

The introduction of a new strategic equity partner would therefore address the management and capital constraints of the business.

A bid process was therefore initiated in October 2002 and bids were received in February 2003. After due consideration of the bids received, Vedanta was selected as the preferred bidder by the KCM board and endorsed by GRZ. Vedanta is an international mining and metals group ("the group") with zinc, copper and aluminium operations in India and two copper mines in Australia. It listed on the London Stock Exchange plc in November 2003 and has a current market capitalisation of approximately US\$1.4 billion. Vedanta holds its interests in its operations through two subsidiaries, Sterlite Industries (India) Limited ("Sterlite") and the Madras Aluminium Company Limited. Sterlite is Vedanta's principal subsidiary company and is currently listed on the Bombay Stock Exchange. Vedanta's copper operations are owned and operated by Sterlite, which also holds majority stakes in the group's zinc business, Hindustan Zinc Limited, and the group's principal aluminium

business, the Bharat Aluminium Company Limited. Vedanta has also recently embarked on a major capital expenditure programme of approximately US\$2 billion to significantly expand its operations.

3. **Detailed terms of the Vedanta investment and associated arrangements**

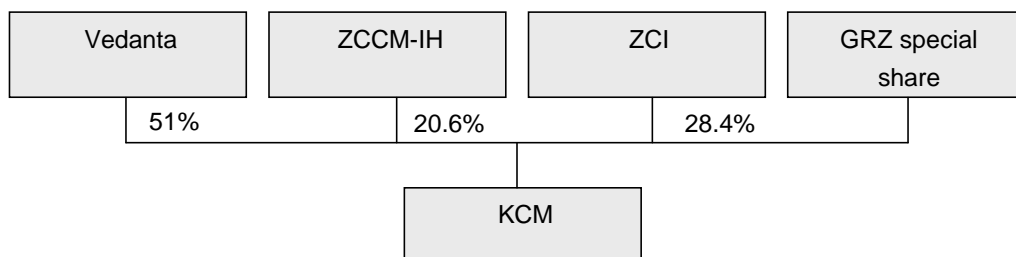
The key terms of the Vedanta investment that the Parties have agreed to are as follows:

- the subscription by Vedanta for sufficient new KCM ordinary shares for an amount of US\$25 million such that Vedanta obtains a 51% interest in KCM. Accordingly, ZCI will reduce its interest in KCM from 58% to 28.4% and ZCCM-IH will reduce its interest in KCM from 42% to 20.6%;
- to enable Vedanta to subscribe for KCM shares, ZCI and ZCCM-IH will waive their pre-emptive subscription rights. As consideration for this waiver, ZCI will receive a deferred consideration of US\$23.2 million from Vedanta, payable over a period commencing on the completion date of the Vedanta investment and ending on 31 December 2008. The schedule of deferred payments is as follows:
 - two million, three hundred and twenty thousand US dollars (US\$2,320,000) on the Completion Date;
 - five million, two hundred and twenty thousand US dollars (US\$5,220,000) on 31 December 2005;
 - five million, two hundred and twenty thousand US dollars (US\$5,220,000) on 31 December 2006;
 - five million, two hundred and twenty thousand US dollars (US\$5,220,000) on 31 December 2007; and
 - five million, two hundred and twenty thousand US dollars (US\$5,220,000) on 31 December 2008;
- similarly, while ZCCM-IH will not receive a deferred consideration from Vedanta, ZCCM-IH will receive, as consideration for their waiver, US\$16.8 million by way of a debt cancellation arrangement with GRZ, whereby GRZ will cancel debt owed by ZCCM-IH to GRZ;
- in the event that the free cash flow (after sustaining and project capital expenditures) of KCM is negative at any time during a period of nine years after the completion date of the Vedanta investment, then Vedanta will guarantee and be responsible for providing or securing the necessary additional funding required by KCM to immediately fund to the extent of the negative cash flow up to but not exceeding a cumulative amount of US\$220 million ("standby funding commitment"). Should this standby funding commitment be provided by Vedanta in the form of equity, it will be non-dilutive to existing shareholders;
- Vedanta will contractually undertake not to exit KCM prior to 1 January 2008. Thereafter if it wishes to exit, Vedanta is required to provide a twelve month notice period during which time it will provide management to KCM and it will pay an exit fee equivalent to the following years budgeted capital expenditure (as adjusted for any over

or under spending of capital expenditure in prior financial periods), with its standby funding commitment terminating on the exit date;

- Vedanta has agreed that KCM will set aside a portion of its future annual free cash flow to create a cash reserve so that the shareholders and GRZ have assurance that as cash is accumulated in the reserve, KCM has dedicated funds available to fund its environmental and terminal benefit obligations;
- an undertaking has been given by Vedanta to support a feasibility study on the extension of the Konkola ore body by no later than 31 December 2006. Vedanta will contribute US\$1million towards the cost of the feasibility study;
- should the KCM board determine to proceed with further development of the Konkola ore body, Vedanta will be responsible for securing the debt finance necessary in accordance with typical market practices for similar projects. In addition, Vedanta will be required to contribute whatever equity is required by KCM to secure the debt funding. ZCI and ZCCM-IH will be able to follow their rights but should they decline to do so, the additional equity will be contributed by Vedanta on a dilutive basis;
- Vedanta will have a call option in favour of Vedanta over ZCI's shares in KCM, exercisable on either a positive development decision on the Konkola ore body or the achievement by Konkola mine, a division of KCM, of 3 million tonnes per annum ("tpa") of ore production for four consecutive quarters. The exercise price will be the prevailing fair market value of ZCI's KCM shares as agreed to between ZCI and Vedanta or, failing agreement, as determined by an independent investment bank;
- if the KCM board determines not to proceed with the further development of the Konkola ore body, then ZCI and ZCCM-IH will have a call option over Vedanta's shares in KCM, exercisable on or after 31 December 2009 at the prevailing fair market value of such shares. However, if Vedanta can demonstrate, at any time before the exercise date of the call option, that an additional five years production for the period from 2013 to 2017, at 175 000 tpa of produced finished copper utilising the existing KCM mining licence and adjacent areas is achievable, then in those circumstances the exercise date of the call option will be deferred for a period of five years, such that it may not be exercised prior to 31 December 2014; and
- GRZ will continue to own one special share in KCM which will allow GRZ to vote at KCM shareholder meetings under certain circumstances as specified in the new KCM articles of association and which will become effective on completion. For example, the consent of GRZ shall be required for any material change in the nature of the business of KCM.

The resulting ownership structure subsequent to the Vedanta investment will be as follows:



On the basis of Vedanta becoming the new controlling shareholder of KCM, GRZ has also agreed the terms of a new development agreement with KCM, which regulates the legal and fiscal framework under which KCM operates in Zambia. In addition to providing legislative certainty to KCM for the agreed stability period, the development agreement also has certain incentives which will benefit KCM if the KCM board decides to proceed with the further development of the Konkola ore body.

At present, the board of directors of KCM consists of three ZCI appointed directors, two ZCCM-IH appointed directors and one GRZ appointed director (with limited voting rights). On completion of the Vedanta investment, the board of KCM will be reconstituted and consist of five Vedanta appointed directors, two ZCI appointed directors, two ZCCM-IH appointed directors and one GRZ appointed director (with limited voting rights).

4. **Conditions precedent**

The Vedanta investment is conditional upon the fulfilment of, *inter alia*, the following conditions precedent:

- approval of the Vedanta investment by ZCI shareholders by way of an ordinary resolution requiring the approval of 75% of ZCI shareholders present or represented by proxy at the meeting;
- approvals by the JSE Securities Exchange South Africa, Paris Bourse and the South African Reserve Bank of the circular to ZCI shareholders;
- a waiver by the Securities and Exchange Commission of Zambia of the requirement that Vedanta make an offer to ZCCM-IH and ZCI for their shares in KCM and the consent thereto by ZCI and ZCCM-IH;
- the consent of certain KCM debt providers to the Vedanta investment;
- the signature of a management agreement for the provision of certain services by Vedanta to KCM; and
- upon satisfaction of the above conditions precedent, the execution of a new shareholders agreement governing the relationship between the Parties, the execution of a new development agreement between KCM and GRZ, the execution of the call option agreements between Vedanta, ZCI and ZCCM-IH and the adoption by KCM of new articles of association.

5. **Warranties**

ZCI, ZCCM-IH and KCM have provided certain warranties to Vedanta normal in a transaction of this nature.

6. **Opinion**

RMB has been appointed by ZCI to prepare a fair and reasonable opinion in respect of the terms and conditions of the Vedanta investment. This opinion, together with the opinion of the board of directors of ZCI, will be contained in the circular to shareholders.

The board of directors of ZCCM-IH is of the view that the Vedanta investment is in the best interests of ZCCM-IH shareholders, who will continue to benefit from ZCCM-IH's 20.6% retained interest in KCM, and thus share in the future development of KCM's assets.

7. **Documentation**

A circular, which is subject to the approval of the JSE Securities Exchange South Africa and the Paris Bourse, giving details of the Vedanta investment and containing a notice of a general meeting of ZCI shareholders, is being prepared and will be posted to ZCI shareholders by no later than Monday 4 October 2004.

8. **Financial effects of the Vedanta investment and further cautionary announcement**

The financial effects of the Vedanta investment are in the process of being finalised. Full disclosure of the financial effects, including the effect on net asset value per share, net tangible asset value per share and headline loss per share, will be published shortly. Accordingly, shareholders are advised to continue to exercise caution when dealing in the securities of the company until such time as a further announcement is made containing the financial effects of the Vedanta investment.

By order of the board

Bermuda
20 August 2004

**Sponsor and independent
financial advisor**

Legal Advisers to ZCI Attorneys

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