Zambia Copper Investments Limited

Annual Report

2000

Chairman's statement

The year 2000 has seen significant developments which will shape the future of your company. As is set out more fully in the Review of operations and projects, the Company has transformed itself from an investment holding company to an entity which controls Konkola Copper Mines PLC ('KCM'), a company which owns three operating mines and associated processing facilities, has an option to acquire the Nkana smelter and refinery and also owns the undeveloped Konkola Deep Mining Project (the 'KDMP'). All of KCM's assets are located in the Republic of Zambia.

Major challenges lie ahead – the existing operations have to be renovated and refurbished at considerable cost; the safety and health of our workforce is paramount and major efforts are being directed towards improving safety and risk awareness at the same time as instituting malaria preventative and HIV/AIDS awareness and educative programmes; the KDMP feasibility study has to be completed and financed. I am confident, however, that the new management team that has been put in place at KCM together with all of the employees that it inherited on completion of the acquisition, will rise to the challenge and I have been particularly encouraged by the way in which all employees have united to achieve the common goal of transforming the assets to sustainable profitability.

Once the KDMP feasibility study is completed, KCM and its shareholders will need to review the optimal financing strategy for KCM. This in turn will have implications for the financial structure of your company and the Board will revert to shareholders, at the appropriate time, with its proposals.

I would like to thank the entire workforce at KCM, as well as our fellow shareholders, the International Finance Corporation (the 'IFC'), the CDC Group plc ('CDC'), Zambia Consolidated Copper Mines Limited ('ZCCM') and the Government of the Republic of Zambia for their respective contributions over the last nine months.

In conclusion, I believe it is totally appropriate that we thank Mr Jack Holmes for the role that he has played in the affairs of the Company, both as Director and Chairman, over many years but most recently as the leader of the negotiating team which has seen the Company's active return to the Copperbelt through its subsidiary, KCM. I wish him well in his retirement.

J W Campbell
Chairman

Review of operations and projects

Financial results

Zambia Copper Investments Limited ('ZCI' or the 'Company') incurred a consolidated net loss of US$15.8 million in the year ended December 31, 2000 (eighteen months to December 31, 1999: loss of US$11.8 million before exceptional items). This includes costs of US$2.9 million incurred on evaluating the Konkola Project and KCM acquisition in the first quarter, and the operating loss of US$9.2 million at KCM, consolidated in ZCI from April 1, 2000.

Acquisition of a 65% interest in Konkola Copper Mines PLC

On March 31, 2000, the Company subscribed for a 65% interest in KCM, a Zambian registered company formed to acquire from ZCCM the assets and certain defined liabilities of its Nchanga and Konkola divisions and the Nampundwe pyrite mine. The other shareholders in KCM are the IFC and CDC Financial Services (Mauritius) Limited, a subsidiary of CDC, each holding 7.5% while ZCCM has a 5% free and 15% repayable interest. On the same date KCM obtained an option over the Nkana smelter and refinery, which are owned by ZCCM (SmelterCo) Limited ('SmelterCo'), a wholly-owned subsidiary of ZCCM. SmelterCo is managed by Anglo Operations Limited ('AOL'), a wholly-owned subsidiary of Anglo American Corporation of South Africa Limited ('AAC'). KCM also entered into three year toll treatment contracts with SmelterCo and Mopani Copper Mines PLC. The purchase consideration payable to ZCCM, in addition to the free and repayable interests, included US$30 million paid at close and a further US$60 million which will be payable by KCM in six annual instalments commencing on January 1, 2006. ZCCM also benefits from copper and cobalt price participation schemes. These participation schemes entitle ZCCM to 25% of revenue received by KCM in excess of agreed thresholds in years when other distributions are made to shareholders, subject to annual caps of US$16 million and an overall cap of US$125 million. All these amounts payable by KCM and the price thresholds will be indexed to the Producer Price Index published in the United States ('US PPI').

In terms of the acquisition agreements, KCM is committed, in the first three years, subject to the ongoing viability of the existing operations, to capital expenditure, primarily related to the refurbishment of the existing operating asset base, of US$208 million. KCM's forecast capital expenditure (excluding the KDMP) for the first three years is US$340 million. The agreements also commit KCM, subject to raising limited recourse project financing of US$313 million on reasonable terms, to developing the KDMP.

Disposal of interest in Zambia Consolidated Copper Mines Limited

Simultaneously with the acquisition of the interest in KCM, the Company disposed of its 27.3% interest in ZCCM to the Zambian Government. The consideration due is US$30 million (indexed to US PPI) payable in six annual instalments commencing on January 1, 2006.

Metal markets

In the copper market the cash price averaged US82.2c/lb over the year, an increase of 15% on the US71.4c/lb achieved in 1999. The structural surplus that had depressed the copper market from mid-1997 disappeared from the end of the first quarter of 2000, and a deficit in excess of 400kt seems likely for the year 2000. London Metal Exchange and Comex stocks increased early in the year from 873kt, reaching a high of 911kt at the end of February. Thereafter, there was a remarkable decline in stocks to 416kt at year-end on the back of both robust physical demand and high Chinese imports. Stocks are now close to normal levels. The copper price responded accordingly and trended firmer, breaking US90c/lb in September, before softening as increasing evidence of a slowdown in the USA, together with high oil prices, led to a general base metal sell-off.

The cobalt market has been in surplus for the past three years and the price has trended down from US$25/lb in early 1998 to a range of US$13 to US$14/lb at present, despite the slow ramp up of the Australian nickel-laterite projects, under-performance of the Kasese project in Uganda, ongoing unrest in the DRC and robust consumption growth. Because the cobalt price is supply driven, prices will probably continue to follow a declining trend, while remaining volatile, as further projects are committed.

The elimination of the stock overhang, combined with the low increase in new mine production forecast for 2001, gives encouragement for firmer copper prices in the future. In the absence of a very significant slowdown in demand, the copper market is likely to be in balance or a slight deficit in 2001. However, little improvement in metal prices can be expected until consensus is reached as to whether the USA's economy is set to experience a 'hard' or 'soft' landing.

Operations : Konkola Copper Mines PLC

(a) *Safety, Health and Environment*

A Safety, Health and Environment ('SHE') Committee has been appointed by the board of KCM, responsible for formulating and recommending policies and monitoring their implementation throughout that company. The KCM board has adopted a SHE Policy which reflects the high priority given to safety, health and environmental issues within the Anglo American group. This policy has been disseminated to all staff at KCM.

Considerable efforts have been made to heighten the safety and risk awareness of all employees and contractors. Virtually all employees had, by the year-end, attended a Risk Awareness Management Programme. The Lost Time Injury Frequency Rate for the nine months under review was regrettably high at 1.49 but there has been a considerable improvement over the period with the rate recorded in December being 0.68. It is with great regret that we report the death of three employees during the nine months.

The most important community health issues facing KCM are malaria and HIV/AIDS. A programme of residual spraying of some 31,463 houses in Chingola and Chililabombwe and 2,500 houses in Nampundwe had been completed by year end. An HIV/AIDS Prevalence Study Programme has been agreed with the Mineworkers Union of Zambia in terms of which voluntary, anonymous testing will be performed. KCM is formulating detailed plans to minimise the impact of the epidemic on its operations. These plans include conducting education and prevention campaigns as well as caring for those affected by the disease.

On acquisition of the assets KCM adopted an Interim Environmental Management Plan and an Interim Social Management Plan. Good progress has been made in preparing the Final Environmental Management Plan and the Final Social Management Plan with approval expected in the first half of 2001.

(b) *2000 operating performance*

At the Nchanga Open Pit a total of 33.4 million tonnes of rock was loaded and hauled in the nine months. This was some 33% below plan with the bulk of the shortfall in respect of overburden. Total ore mined at 3.6 million tonnes, average grading 2.3% copper, was 6% below plan. In the earlier part of the year the mine suffered from poor equipment availability but this has now improved.

The Nchanga underground mine produced 1.9 million tonnes of ore grading 3.19% Cu compared to a planned 1.9 million tonnes at 3.06% Cu.

The Konkola underground mine produced 917,000 tonnes grading 3.52% Cu. Although the Konkola grade was on plan the tonnage was some 24% below, due largely to the backlog on development at take-over and the need to implement safety measures before full scale mining could recommence.

A total of 6.465 million tonnes of copper ore at an average grade of 2.64% Cu was milled. Copper ore milled was some 4% below plan. Cobalt ore milled of 789,000 tonnes was 6% below plan but, with the cobalt grade higher than planned at 0.5% Co, contained cobalt was 16% above plan. Copper contained in cobalt ores was 16% below plan.

The Tailings Leach Plant (the 'TLP') achieved an average recovery of 67.7%, which was in line with plan, to produce 53,973 tonnes of finished copper, some 6% below plan. The TLP was initially constrained by shortages of consumables, but with improvements in the flow of supplies, production is now meeting expectations.

The Nkana and Mufulira smelters and refineries, which toll treat KCM's copper in concentrate produced a total of 71,411 tonnes of finished copper which was some 22% below plan. Nkana experienced problems with its reverberatory furnaces which have resulted in a build-up of concentrate inventories.

The first table on page 6 summarises production for the nine months to December 31, 2000 and, there being no 1999 comparative numbers, compares production with the plan envisaged at the time of acquisition.

(c) *Turnaround programme*

Turning around the operations acquired represents a major challenge. A significant amount of refurbishment of the assets is required to improve the safety of operation, increase efficiencies and minimise the impact on the environment. Furthermore, the development of the ore reserves in advance of production requires significant 'catch up' development in order to establish equilibrium. The turnaround programme includes both the physical upgrading or replacing of assets as well as the training of the workforce and introduction of modern management techniques. Significant investment is being made in the installation and modernisation of operating and financial systems which can deliver high quality information on a timely basis. A highly experienced management team has been put in place.

In total US$70 million was spent on refurbishment during 2000.

(d) *Outlook for 2001*

The refurbishment programme is set to accelerate during 2001 and the benefits thereof, such as improved working conditions and increased efficiencies of equipment, should become evident in terms of increased production. Production for 2001 is forecast to be 240,075 tonnes of copper and 2,740 tonnes of cobalt.

Konkola Deep Mining Project

A feasibility study, which revalidates certain aspects of earlier studies and analyses in detail certain aspects which arise as a result of the assets ultimately acquired by KCM, is currently underway and should be completed during the first quarter of 2001. The study envisages the sinking of a major new shaft at Konkola to a depth of some 1,400 metres and the construction of a new concentrator at Konkola with a capacity to treat six million tonnes of ore per annum over a 30 year life. Concentrate would then be treated at an expanded Nkana smelter, should KCM exercise an option to acquire that smelter, or in a new hydrometallurgical plant should it be decided that this route is optimal. The acid from either the smelter or the hydrometallurgical plant would be utilised to treat the Chingola Refractory Ores ('CRO's'). The project would take some five years from the commencement of construction to achieve full production and the build up to production is to be phased to coincide with the depletion of resources at the existing three mines.

Should the KDMP be approved, the average annual production over the next 30 years is estimated to be 240,000 tonnes of copper. The project is scheduled to commence at the beginning of 2002, subject to approval and satisfactory financing being secured. The Konkola mine is one of the wettest in the world with some 290,000 cubic metres of water a day currently being pumped to surface. The planned increase in the size of the mine is expected to increase the daily pumping requirement to a peak of 420,000 cubic metres.

Konkola Copper Mines PLC – Reserves and resources

The second table on page 6 summarises reserves and resources at December 31, 2000.

Financial position

Immediately prior to the acquisition by ZCI, KCM concluded a Subscription and Shareholders' Loan Agreement ('SSLA') with ZCI, the IFC and CDC in terms of which these parties committed to fund KCM by way of share capital and loans totalling US$370 million. ZCI, IFC and CDC have committed under the SSLA to provide KCM with funding up to US$320 million pro rata to their shareholdings in KCM with ZCI being committed to an additional facility of US$50 million. The Company's major shareholder, Anglo American plc ('AA plc'), agreed to procure that financial facilities of up to a maximum of US$310 million would be made available to the Company to enable it to meet its obligations to KCM. At December 31, 2000 KCM had drawn a total of US$120 million under the SSLA while ZCI had borrowed US$96 million from A.R.H. Limited S.A., a wholly-owned subsidiary of AA plc.

The capital cost of the KDMP expansion project, including the expansion of the smelter and the facilities to treat the CRO's, over the years 2002 to 2006 is estimated at US$750-850 million. However, KCM's total capital expenditure over the period 2001 to 2006 is estimated at US$1.05–1.15 billion.

The directors of ZCI are giving consideration to the most appropriate means of raising the necessary long-term capital required by the Company to meet its commitments to KCM, as reflected in the feasibility study, and will revert to shareholders in due course with their proposals in this regard.

Review of operations and projects

continued

Production at KCM for the nine months to December 31, 2000

	Actual		Plan	
	Tonnes ('000t)	Grades (%)	Tonnes ('000t)	Grades (%)
Copper ore mined				
– Nchanga Open Pit	3,126	2.33	2,621	2.69
– Nchanga Underground	1,926	3.19	1,921	3.06
– Konkola Underground	917	3.52	1,205	3.52
Cobalt ore mined				
– Nchanga Open Pit	463	0.41 (Co)	1,208	0.50 (Co)
		1.78 (Cu)		1.81 (Cu)
Tailings Leach Plant				
– Tailings treated	7,001	1.06	9,900	0.84
	Tonnes		Tonnes	
Flotation				
– Copper in all concentrate produced	93,711		106,336	
– Cobalt in all concentrate produced	3,129		2,683	
Tailings Leach Plant				
– Finished copper produced	53,973		57,244	
Smelting and Refining				
– Tonnes concentrate treated	192,100		240,000	
– Finished copper produced	71,411		92,090	
Copper production	125,385		149,334	
Cobalt production	1,659		1,432	

KCM reserves and resources at December 31, 2000

	Proved and probable reserves			Measured and indicated resources		
	Tonnes (millions)	Grade (% Cu)	Cont.Cu ('000t)	Tonnes (millions)	Grade (% Cu)	Cont.Cu ('000t)
Copper						
Konkola current mine	16.2	3.58	582	1.6	2.81	46
Konkola Deep Mine Project	91.1	3.81	3,471	47.6	3.21	1,526
Nchanga open pit	13.4	2.31	309	16.3	1.62	264
Nchanga satellite pits	3.8	2.78	107	14.1	2.07	293
Nchanga underground	20.3	2.63	534	2.6	4.68	120
Nchanga CRO dumps	131.9	0.87	1,146	19.1	0.87	166
Nchanga tailings	95.4	0.69 (%TCu)	662	2.5	0.74 (%TCu)	18
		0.49 (%ASCu)	467		0.55 (%ASCu)	14
Transit stockpiles (Copper)	0.8	1.66	13	2.7	1.06	28
Total copper reserves and resources	372.9	1.83	6,822	106.5	2.31	2,461
	Tonnes (millions)	Grade (% Co)	Cont.Co ('000t)	Tonnes (millions)	Grade (% Co)	Cont.Co ('000t)
Cobalt						
Nchanga open pit	2.4	0.41	10	8.5	0.34	29
Nchanga satellite pits	–	–	–	0.4	0.23	1
Transit stockpiles (Cobalt)	0.9	0.26	2	0.1	0.25	0.3
		1.16 (%TCu)	10		0.51 (%TCu)	1
Total cobalt reserves and resources	3.3	0.37	12	9.1	0.33	30
	Tonnes (millions)	Grade (% S)	Cont.S ('000t)	Tonnes (millions)	Grade (% S)	Cont.S ('000t)
Pyrite ore						
Nampundwe	6.9	13.70 (%S)	946	0.8	17.20 (%S)	151

Notes

1. All reserves and resources have been classified in compliance with the SAMREC code (South African Code for the Reporting of Mineral Resources and Reserves).
2. A negative adjustment of 0.491 mt needs to be made to the total Konkola Reserve to account for overlaps and underlaps at the interface between current mine and the KDMP.
3. Resources stated are in addition to the Reserves.

Report of the directors

The directors have pleasure in submitting the consolidated financial statements of ZCI for the year ended December 31, 2000.

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 (the 'LSE') and the Paris Bourse. The Company's major asset is now its holding of 65% of the share capital of KCM, a Zambian registered mining company.

Dividends

No dividends were paid or proposed by ZCI in respect of the year ended December 31, 2000.

Directors and officers

Mr J A Holmes resigned from the Board and as Chairman on September 19, 2000 and Dr J W Campbell was appointed as a director and as Chairman on the same date.

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 Dr J W Campbell as Chairman.

Directors' interests

At December 31, 2000 the directors held, non-beneficially, 301 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 and LSE.

Advisory services

AAC provides various services, including technical advisory services, to ZCI whilst Anglo American Luxembourg S.A. provides administrative and financial services. All of the directors and the alternate director of ZCI with the exception of Messrs G B R Collis, H R Fraser and J Macdonald are directors or officials of AA plc or its subsidiaries.

Auditors

Deloitte & Touche were reappointed as auditors of ZCI at the annual general meeting held on January 26, 2000. They have signified their willingness to continue in office and, accordingly, a resolution for their reappointment will be submitted to the forthcoming annual general meeting.

Report of the directors

continued

Shareholders at December 31, 2000

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, 2000 was:

	Percentage holding
Non-public shareholders	
Anglo American plc and its subsidiaries	50.9
Public shareholders	49.1
	100.0

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

	Number of shares	Percentage holding
Anglo American plc and its subsidiaries	62,390,860	50.9
Sicovam S.A.*	41,573,355	33.9
Standard Bank Nominees (Transvaal) (Proprietary) Limited†	14,014,585	11.4

* According to information available to the directors on enquiry to this registered nominee shareholder, there are no shareholders which beneficially held in excess of 5% of the share capital of the Company at December 31, 2000.

† According to information available to the directors on enquiry to this registered nominee shareholder, there is one shareholder, BNP Paribas, which beneficially held in excess of 5% of the share capital of the Company at December 31, 2000. Such shareholder held 13,541,401 shares at the year end, equating to 11.0% of the Company's share capital.

Annual General Meeting

The annual general meeting of the Company will be held at 2.30 pm on Thursday, March 29, 2001. The notice convening the meeting is set out on page 23 of this annual report.

By order of the Board

D A L Bennett
Secretary

March 1, 2001

Code of corporate practices and conduct

ZCI and its operating subsidiary are committed to the principles of openness, integrity and accountability advocated in the UK Combined Code on Corporate Governance and the South African King Report 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 administration of the Company is provided by subsidiaries of AA plc, which endorses the principles of the Code. 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. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the annual financial statements.

Board of directors

The Company's board of directors comprises ten 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 that board procedures are followed.

The KCM board of directors, which meets on a quarterly basis, comprises one executive director and ten non-executive directors, of which six 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 chief executive officer has a service contract with KCM, with one year remaining. 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 comprise individuals of high calibre with diverse backgrounds and expertise which ensures that their views carry significant weight in deliberations and decisions.

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

SHE Committee

The SHE Committee is responsible for developing framework policies and guidelines for safety, health and environment management and ensuring the progressive implementation of the same throughout KCM in working towards internationally accepted standards and best practices. The SHE 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 KCM operates.

Audit Committee

An important element of the KCM board's system of monitoring and control is the board appointed Audit Committee which comprises four non-executive directors. The Audit Committee meets at least four times each year with the internal and external auditors and operating management to review accounting, auditing, risk management, internal control and financial reporting matters. The internal and external auditors have unrestricted access to the Audit Committee.

Internal control

To enable the directors to meet their responsibilities, KCM management sets standards and implements systems of internal control aimed at reducing the risk of error, fraud or loss in a cost effective manner. These controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. The controls are monitored throughout the company and corrective action is taken to address control deficiencies and other opportunities for improving the system as they are identified.

Employee participation

KCM employs a variety of participative structures on issues which affect employees directly and materially.

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 all employees.

Consolidated statement of earnings

for the year ended December 31, 2000

	Notes	**Twelve months to December 31, 2000**	Eighteen months to December 31, 1999
		in thousands of US dollars	
Turnover		**229,004**	–
Operating costs		**(238,160)**	–
Operating loss	3	**(9,156)**	–
Interest and other financial income		**1,886**	1,568
Interest expense		**(9,676)**	–
Commitment fee on loan facility		**(1,676)**	–
General and administration expenses		**(1,163)**	(1,129)
Share of Konkola Project consortium expenses		**(2,878)**	(12,219)
Loss before taxation		**(22,663)**	(11,780)
Taxation	4	**3,522**	–
Loss after taxation		**(19,141)**	(11,780)
Loss attributable to minority interests in KCM		**3,329**	–
Exceptional item	5	**–**	(2,237)
Net loss		**(15,812)**	(14,017)
		per ordinary share in US cents	
Headline loss before exceptional item		**(12.90)**	(9.61)
Net loss		**(12.90)**	(11.43)

See accompanying notes to the consolidated financial statements

Consolidated statement of retained earnings

for the year ended December 31, 2000

	Notes	**Twelve months to December 31, 2000**	Eighteen months to December 31, 1999
		in thousands of US dollars	
(Accumulated deficit)/retained earnings at beginning of the period		**(5,981)**	5,799
Net loss		**(15,812)**	(14,017)
		(21,793)	(8,218)
Transfer from contributed surplus	5	**–**	2,237
Accumulated deficit at end of the period		**(21,793)**	(5,981)

See accompanying notes to the consolidated financial statements

Consolidated statement of financial position

as at December 31, 2000

	Notes	**December 31, 2000**	December 31, 1999
		in thousands of US dollars	
Fixed assets			
Intangible assets	6	**5,998**	–
Deferred tax asset	7	**3,794**	–
Tangible assets	8	**174,623**	–
		184,415	–
Investments and advances	9	**35,879**	30,000
		220,294	30,000
Current assets			
Stocks	10	**112,887**	–
Accounts receivable	11	**26,435**	213
Cash and short-term investments	12	**28,314**	11,894
		167,636	12,107
Current liabilities			
Accounts payable and accrued liabilities	13	**83,443**	1,307
Net current assets		**84,193**	10,800
Total assets less current liabilities		**304,487**	40,800
Long term loans	14	**(120,091)**	–
Provisions for liabilities and charges	15	**(79,112)**	–
Deferred purchase consideration	16	**(60,000)**	–
Minority interest in KCM equity		**(20,296)**	–
Net assets		**24,988**	40,800
Capital and reserves			
Capital	17	**46,781**	46,781
Accumulated deficit		**(21,793)**	(5,981)
Shareholders' equity		**24,988**	40,800

Approved by the board of directors:

J W Campbell
Director

M W King
Director

See accompanying notes to the consolidated financial statements

Consolidated statement of cash flow

for the year ended December 31, 2000

	Notes	**Twelve months to December 31, 2000**	Eighteen months to December 31, 1999
		in thousands of US dollars	
Cash flow from operating activities			
Cash received from customers		**213,990**	–
Cash paid to suppliers and employees		**(229,000)**	(12,066)
Cash absorbed by operations		**(15,010)**	(12,066)
Interest received		**1,461**	–
Interest paid		**(583)**	–
Income tax paid		**(28)**	–
Net cash absorbed by operating activities		**(14,160)**	(12,066)
Cash flow from investing activities			
Costs of acquiring interest in KCM		**(4,594)**	–
Acquisition of assets from ZCCM	19	**(30,000)**	–
Capital expenditure		**(71,185)**	–
Net cash used in investing activities		**(105,779)**	–
Cash flow from financing activities			
Proceeds from external borrowings		**96,000**	–
Advances by minority shareholders in KCM		**11,250**	–
Equity subscriptions by minority shareholders		**11,250**	–
Net cash from financing activities		**118,500**	–
Net decrease in cash		**(1,439)**	(12,066)
Cash at the beginning of the period		**11,772**	23,838
Net cash at the end of the period		**10,333**	11,772
Cash deposits and cash at bank	12	**28,192**	11,772
Bank overdraft – unsecured	13	**(17,859)**	–
Net cash at the end of the period		**10,333**	11,772

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

All amounts are expressed in thousands of US dollars unless otherwise indicated

1. Incorporation

Zambia Copper Investments Limited ('ZCI' or the 'Company') is incorporated as an investment holding company in Bermuda.

The Company does not carry on business in Bermuda and therefore its profits are not subject to Bermuda taxation.

The Company's principal activity is the holding of a 65% interest in Konkola Copper Mines PLC ('KCM'), a company incorporated in the Republic of Zambia.

2. Significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with International Accounting Standards.
The preparation of financial statements in conformity with International Accounting 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.

Principles of consolidation

The consolidated financial statements include the financial statements of ZCI and all companies more than 50% owned with the exception of those subsidiaries which are considered to be immaterial. The unconsolidated subsidiaries are accounted for by the cost method and their earnings included in the statement of earnings to the extent of dividends received.

Turnover

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

Fixed assets

Intangible and 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 acquisition 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.

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

Intangible assets are amortised on a straight-line basis over 20 years.

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

Depreciation is charged to write off the cost of land and buildings on a straight line basis up to a maximum of 50 years.

Depreciation is charged to write off the cost of plant, equipment and motor vehicles at varying rates, over the lower of 20 years or the estimated useful lives of the mines to which they relate, or on a straight-line basis over their estimated useful lives to a maximum of 15 years.

Capital work in-progress is not depreciated.

Deferred secondary development expenditure

The cost of developing access to mine ore bodies during the commercial production stage is normally written off as production costs. 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.

Investments
Long-term investments are included at cost less amounts written-off and provisions for a decline, other than temporary, in the value of investments.

Short-term investments are recorded at the lower of cost or net realisable value.

Stocks
Finished and process metal stocks are valued at the lower of cost or estimated net realisable value. Cost represents average production cost and excludes Corporate Head Office and certain administration and selling expenses. Net realisable value is determined after the deduction of anticipated realisation expenses.

Consumable stores are valued at the lower of cost or estimated 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 incurred.

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 its 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 of 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.

Deferred taxation
The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Temporary timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences computed by applying enacted statutory tax rates to differences between the financial statements carrying amounts and the tax bases of existing assets and liabilities are recognised as a deferred tax asset or liability in the financial statements. A deferred tax asset is only recognised when it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

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 dealt with in the profit and loss account.

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.

Notes to the consolidated financial statements

continued

All amounts are expressed in thousands of US dollars unless otherwise indicated

3. Operating loss

	December 31, 2000	December 31, 1999
Operating loss before interest and taxation is stated after crediting:		
Net exchange gains	**3,084**	–
and after charging:		
Amortisation of intangible assets	**424**	–
Depreciation	**20,815**	–
Loss on disposal of tangible fixed assets	**83**	–
Directors' fees	**14**	–

4. Taxation

	December 31, 2000	December 31, 1999
Current Income tax based on interest income for period	**272**	–
Deferred tax	**(3,794)**	–
	3,522	–
Payable in respect of period	**272**	–
Paid during period	**(28)**	–
Included in Accounts Payable (Note 13)	**244**	–

KCM has losses for taxation purposes of approximately US$155,000,000 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 Government of the Republic of Zambia (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.

5. Exceptional item

	December 31, 2000	December 31, 1999
Provision for decline in the value of ZCCM	**–**	(2,237)

6. Intangible asset

	December 31, 2000	December 31, 1999
Costs of acquiring interest in KCM	**4,594**	–
Share of ZCCM free carried interest	**1,828**	–
	6,422	–
Less: Amount amortised	**(424)**	–
	5,998	–

7. Deferred taxation

	December 31, 2000	December 31, 1999
Tax effect of timing differences due to:		
Capital allowances in excess of depreciation	**30,894**	–
Other timing differences	**4,062**	–
Total potential liability	**34,956**	–
Tax loss for the period	**(38,750)**	–
Deferred tax asset provided for	**(3,794)**	–

8. Tangible fixed assets

	Mining properties and leases, mine developments and equipment December 31, 2000	**Leasehold land and buildings December 31, 2000**	**Plant, equipment, and other December 31, 2000**	**Capital work in progress December 31, 2000**	**Total December 31, 2000**
Cost					
Assets acquired from ZCCM	**31,508**	**13,051**	**79,782**	**–**	**124,341**
Additions in the period	**20,189**	**597**	**29,575**	**20,819**	**71,180**
Disposals	**–**	**–**	**(89)**	**–**	**(89)**
At the end of the period	**51,697**	**13,648**	**109,268**	**20,819**	**195,432**
Depreciation					
Charge for period	**1,332**	**961**	**18,522**	**–**	**20,815**
Elimination in respect of disposals	**–**	**–**	**(6)**	**–**	**(6)**
At the end of the period	**1,332**	**961**	**18,516**	**–**	**20,809**
Net Book Value					
At the end of the period	**50,365**	**12,687**	**90,752**	**20,819**	**174,623**

Other tangible fixed assets include motor vehicles, office furniture and equipment.

9. Investments and advances

	December 31, 2000	December 31, 1999
Loans		
Deferred consideration owing by the GRZ	**30,000**	–
Loan to ZCCM, including capitalised interest	**5,879**	–
	35,879	–
Quoted investment		
ZCCM		
27.3% of issued equity capital	**–**	100,777
Less: Provision	**–**	(70,777)
	–	30,000

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

Notes to the consolidated financial statements

continued

All amounts are expressed in thousands of US dollars unless otherwise indicated

10. Stocks	**December 31, 2000**	December 31, 1999
Finished and process metal	**88,127**	–
Consumable stores	**24,760**	–
	112,887	–

Stocks of finished and process copper included in the above amount have been valued at net realisable value of US$77,028,000.

11. Accounts receivable	**December 31, 2000**	December 31, 1999
Trade debtors	**15,015**	–
Other debtors and prepayments	**11,420**	213
	26,435	213

12. Cash and short-term investments

	December 31, 2000 Market value	**December 31, 2000 Carrying value**	December 31, 1999 Market value	December 31, 1999 Carrying value
Call deposits and cash at bank	**28,192**	**28,192**	11,772	11,772
Equity fund	**299**	**122**	370	122
	28,491	**28,314**	12,142	11,894

Cash deposits are held in United States dollars and earn interest at an average rate of 6.2% (1999: 5.5%).

13. Accounts payable and accrued liabilities	**December 31, 2000**	December 31, 1999
Trade creditors	**44,108**	–
Bank overdraft – unsecured	**17,859**	–
Other creditors and accrued expenses	**17,577**	913
Amounts due to related companies	**3,655**	394
Taxation payable (Note 4)	**244**	–
	83,443	1,307

14. Long term loans

	December 31, 2000	December 31, 1999
Loan from A.R.H. Limited S.A.	**96,000**	–
Capitalised interest and commitment fee thereon	**9,235**	–
Amount due to A.R.H. Limited S.A.	**105,235**	–
Loans from minority shareholders to KCM, including capitalised interest	**14,856**	–
	120,091	–

The Company has a loan facility from A.R.H. Limited S.A. ('ARH'), a wholly-owned subsidiary of Anglo American plc ('AA plc'), under which it may borrow up to US$310 million.

A commitment fee is charged on the undrawn balance. The charge for the year was US$1,676,000.

15. Provisions for liabilities and charges

	Terminal benefits December 31, 2000	Restoration, rehabilitation & environmental December 31, 2000	Total December 31, 2000
Transferred from ZCCM on March 31, 2000	**48,862**	**28,969**	**77,831**
Charged to operating costs during the period	**(565)**	**1,846**	**1,281**
At the end of the period	**48,297**	**30,815**	**79,112**

Terminal benefits
On March 31, 2000 KCM assumed responsibility for payment of the accrued terminal benefit liability in respect of the transferring employees from ZCCM. However, in the event of cessation of employment from KCM of any such transferring employees at any time up to, and including March 31, 2001, ZCCM shall reimburse KCM the accrued terminal benefits for those employees to a maximum of US$5,532,000.

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 to rehabilitate environmental disturbances caused by mining operations. These costs are expected to be incurred over a period in excess of 20 years from the balance sheet date.

16. Deferred purchase consideration

	December 31, 2000	December 31, 1999
At the end of the period	**60,000**	–

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

Notes to the consolidated financial statements

continued

All amounts are expressed in thousands of US dollars unless otherwise indicated

17. Capital

	December 31, 2000	December 31, 1999
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		
– 122,559,900 ordinary shares	**29,414**	29,414
– 50,000 deferred shares	**12**	12
	29,426	29,426
Contributed surplus		
Balance at the beginning of the period	**17,355**	19,592
Transfer to retained earnings to meet deficit (see Note 5)	**–**	(2,237)
Balance at the end of the period	**17,355**	17,355
Total capital	**46,781**	46,781

18. Obligations under Konkola Copper Mines PLC shareholders' agreement

In terms of the KCM Consortium Agreement between ZCI, the International Finance Corporation (the 'IFC') and CDC Financial Services (Mauritius) Ltd, a subsidiary of the CDC Group plc ('CDC'), ZCI has granted to each of the other parties the right in defined circumstances to put to ZCI their entire investments in KCM, comprising both equity and loans. The put is exercisable if KCM fails to comply with environmental covenants, including the completion within two years of Final Environmental and Social Management Plans and achieving compliance with those final plans within three years of March 31, 2000.

The IFC and CDC each has a partial redemption right in certain circumstances in respect of its investment in KCM. The right is exercisable if either KCM fails to commence the Konkola Deep Mining Project (the 'KDMP') within 5 years of March 31, 2000 or it fails within 42 months of March 31, 2000 to achieve defined levels of production and operating costs. Redemption would entail the reduction in each of their investments to US$10 million and would immediately cancel any undrawn portion of their commitments under the KCM Subscription and Shareholders' Loan Agreement ('SSLA').

19. Acquisition of Konkola, Nchanga and Nampundwe operations

On March 31, 2000 the Company's 65% owned subsidiary, KCM, acquired the Konkola and Nchanga Divisions of ZCCM and the Nampundwe mine. The fair value of assets acquired and liabilities assumed were as follows:

	December 31, 2000	December 31, 1999
Tangible fixed assets	**124,341**	–
Stocks	**54,268**	–
Current liabilities	**(3,278)**	–
Terminal benefit liability	**(48,862)**	–
Restoration and environmental liabilities	**(28,969)**	–
Discount on fair value of assets acquired from ZCCM	**(7,500)**	–
Total purchase consideration	**90,000**	–
Settlement of the purchase price:		
Funded by ZCI	**24,375**	–
Funded by minority shareholders of KCM	**5,625**	–
	30,000	–
Deferred consideration to be paid by KCM (Note 16)	**60,000**	–
	90,000	–

20. Contingencies

SmelterCo asset option

KCM has a call option to require ZCCM to transfer to KCM, by way of sale, all of the SmelterCo shares or assets at the option exercise price of US$7 million. If the option is exercised, KCM will assume all liabilities other than those incurred in breach of the management agreement between Anglo Operations Limited, a subsidiary of AA plc, and SmelterCo dated March 31, 2000. KCM may exercise the call option at any time in the five year period to March 31, 2005. In the final two years the option is replaced by a right of first refusal if an offer is received by ZCCM from a third party.

KDMP call option

KCM has granted to ZCCM a call option to require KCM, in certain circumstances, to transfer to ZCCM all of the assets formerly constituting the Konkola Division of ZCCM together with such improvements, additions and expansions as KCM may effect, including the assets comprising the KDMP. ZCCM may exercise the call option at anytime if KCM, not having raised the finance for the KDMP, fails to deliver the required notices under the Agreement, or, having raised the finance fails within six months thereof to proceed or continue with the development of the KDMP.

21. Related party transactions

The Company has no established office or employees and in consequence utilises the administrative and financial services of Anglo American Luxembourg S.A. and the technical services of Anglo American Corporation of South Africa Limited (‘AAC’), both wholly-owned subsidiaries of AA plc.

The Company has been charged US$369,000 for these services (1999: US$769,000), while KCM has been charged US$5,593,000. In addition, the Konkola Project Consortium has been charged US$745,000 (1999: US$4,830,000) for technical services provided by AAC.

The Company has been charged US$3,100,000 as a facility fee and US$1,676,000 as a commitment fee in respect of the facility granted by ARH.

All these transactions were in the normal course of business and reflect the amount of the consideration established and agreed by the related parties.

22. Holding company

The Company’s ultimate holding company is AA plc, a company incorporated in the United Kingdom.

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, 2000, and the consolidated statements of earnings, retained earnings and cash flow for the year then ended as set out on pages 11 to 21. 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 the financial position of the group as at December 31, 2000 and the results of its operations and its cash flow for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche
Chartered Accountants

Hamilton, Bermuda

March 1, 2001

Notice of Annual General Meeting

Notice is hereby given that the thirty-first annual general meeting of the shareholders of Zambia Copper Investments Limited will be held at 9 rue Sainte Zithe, Luxembourg at 2.30 pm on Thursday, March 29, 2001 for the following business:

1. To consider the financial statements and the reports of the directors and auditors for the year to December 31, 2000.

2. To elect directors.

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

A shareholder entitled to attend and vote at the meeting is entitled to appoint another person to attend and, on a poll, to vote instead of the shareholder. A proxy need not be a shareholder. A form of proxy is enclosed with this annual report.

By order of the board of directors

D A L Bennett
Secretary

March 7, 2001

Shareholders' diary – calendar 2001

Half-year report	September
Financial year-end	December 31
Preliminary results	February 2002
Annual report	March 2002
Annual general meeting	March 2002

Company details

Directors

J W Campbell (Chairman)
P M Baum
C J Colebank
G B R Collis (Alternate: J Macdonald)
H R Fraser
G M Holford
M W King
A W Lea
W A Nairn
J Ogilvie Thompson

Secretary

D A L Bennett

Registered Office

Clarendon House
2 Church Street
Hamilton
Bermuda

Transfer Secretaries

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In the United Kingdom:
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United Kingdom