

# ZAMBIA COPPER INVESTMENTS LIMITED

(Registered in Bermuda)  
("ZCI" or the "Company")

## Audited financial statements for the year ended December 31, 2001

### 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, Konkola Copper Mines plc ("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.

A KCM Shareholders' Steering Committee has been established on which are represented KCM, ZCCM Investments Holdings plc, the Company, International Finance Corporation, CDC Group plc and the Government of the Republic of Zambia. Financial and technical advisors have been appointed and restructuring proposals are being considered which, if successful, could lead to KCM being better able to attract additional finance in the form of new equity or debt, to finance its future operations. The continued operation of the Company is dependent on KCM continuing to operate on a going concern basis.

The financial statements have been prepared on a going concern basis in accordance with International Accounting Standards on a basis consistent with the previous year. If further financing does not, however, become available for KCM from around the end of the first quarter of 2002, it is likely that the Company will not be able to continue as a going concern and that the assets reflected in the Consolidated statement of financial position will be significantly impaired. The Audit Report contains a disclaimer with regard to the Company's ability to continue as a going concern.

<b>Consolidated statement of earnings</b> <i>for the year ended December 31, 2001</i>	2001 <i>in thousands of US dollars</i>	2000
Turnover	370,689	229,004
Operating costs	(454,137)	(238,160)
Operating loss before interest and taxation	(83,448)	(9,156)
Interest and other financial income	6,300	1,886
Interest expense	(21,916)	(9,676)
Commitment fee on loan facility	(1,680)	(1,676)
General and administration expenses	(1,638)	(1,163)
Share of Konkola Project consortium expenses	-	(2,878)
Loss before tax	(102,382)	(22,663)
Taxation	(3,883)	3,522
Loss after taxation	(106,265)	(19,141)
Loss attributable to minority interests	20,296	3,329
<b>Net loss</b>	<b>(85,969)</b>	<b>(15,812)</b>
	per ordinary share in US cents	
<b>Headline loss before exceptional items and amortisation of goodwill</b>	<b>(69.68)</b>	<b>(12.56)</b>
<b>Net loss</b>	<b>(70.14)</b>	<b>(12.90)</b>

<b>Consolidated statement of retained earnings</b> <i>for the year ended December 31, 2001</i>	2001 <i>in thousands of US dollars</i>	2000
Accumulated deficit at beginning of the year	(21,793)	(5,981)
Net loss	(85,969)	(15,812)
<b>Accumulated deficit at end of the year</b>	<b>(107,762)</b>	<b>(21,793)</b>

No dividends were paid or proposed by the Company in respect of the year ended December 31, 2001.

**Consolidated statement of financial position**

2001

2000

*as at December 31, 2001**in thousands of US dollars*

<b>Fixed assets</b>		
Intangible assets	8,265	5,998
Deferred tax asset	-	3,794
Tangible fixed assets	260,756	174,623
	<u>269,021</u>	<u>184,415</u>
<b>Investments and advances</b>	45,932	35,879
	<u>314,953</u>	<u>220,294</u>
<b>Current assets</b>		
Stocks	105,462	112,887
Accounts receivable	68,924	26,435
Cash and short-term investments	4,772	28,314
	<u>179,158</u>	<u>167,636</u>
<b>Current liabilities</b>		
Short term loans and bank overdrafts	(98,566)	(17,859)
Accounts payable and accrued liabilities	(62,172)	(65,584)
	<u>(160,738)</u>	<u>(83,443)</u>
<b>Net current assets</b>	18,420	84,193
<b>Total assets less current liabilities</b>	333,373	304,487
<b>Long term liabilities</b>		
Long term loans	(263,346)	(120,091)
Provisions	(69,451)	(79,112)
Deferred purchase consideration	(61,557)	(60,000)
Minority interest	-	(20,296)
<b>Net (liabilities) / assets</b>	<u>(60,981)</u>	<u>24,988</u>
<b>Capital and reserves</b>		
Capital	46,781	46,781
Accumulated deficit	(107,762)	(21,793)
<b>Shareholders' (deficit) / equity</b>	<u>(60,981)</u>	<u>24,988</u>

**Consolidated statement of cash flow**

2001

2000

*for the year ended December 31, 2001**in thousands of US dollars*

<b>Cash flow from operating activities</b>		
Cash received from customers	361,945	213,990
Cash paid to suppliers and employees	(465,756)	(229,000)
<i>Cash absorbed by operations</i>	<u>(103,811)</u>	<u>(15,010)</u>
Interest received	356	1,461
Interest paid	(5,314)	(583)
Income tax paid	(351)	(28)
<i>Net cash absorbed by operating activities</i>	<u>(109,120)</u>	<u>(14,160)</u>
<b>Cash flow from investing activities</b>		
Investment in KCM	(2,832)	(4,594)
Acquisition of assets from ZCCM	-	(30,000)
Capital expenditure	(107,297)	(71,185)
<i>Cash absorbed by investing activities</i>	<u>(110,129)</u>	<u>(105,779)</u>
<b>Cash flow from financing activities</b>		
Proceeds from external borrowings	154,000	96,000
Advances by minority shareholders in KCM	21,000	11,250
Equity subscriptions by minority shareholders	-	11,250
<i>Net cash from financing activities</i>	<u>175,000</u>	<u>118,500</u>
<b>Net decrease in cash</b>	(44,249)	(1,439)
<b>Cash at the beginning of the year</b>	10,333	11,772
<b>Net (debt) / cash at the end of the year</b>	<u>(33,916)</u>	<u>10,333</u>
<b>Cash deposits and cash at bank</b>	4,650	28,192
<b>Bank overdraft - unsecured</b>	(38,566)	(17,859)
<b>Net (debt) / cash at the end of the year</b>	<u>(33,916)</u>	<u>10,333</u>

## **Chairman's Statement**

On October 12, 2001, ZCI issued a press release stating that, in view of the outlook for the copper and cobalt price and the inability to raise the required limited recourse project finance, its operating subsidiary KCM had advised the Zambian Government that it was unable to proceed with the Konkola Deep Mining Project. As stated in ZCI's press release dated January 24, 2002, Anglo American plc, ZCI's 50.9% shareholder, subsequently advised the Company that in the absence of the Konkola Deep Mining Project, it could not justify providing funding to ZCI beyond that committed at the time of vesting of the former Zambia Consolidated Copper Mines Limited assets.

Given KCM's requirement for additional funding during 2002, the future of both ZCI and KCM as going concerns is currently unclear. A KCM Shareholders' Steering Committee has been established with representatives from ZCI, the International Finance Corporation, the CDC Group plc, ZCCM Investments Holdings PLC and the Zambian Government to evaluate all options. ZCI has engaged NM Rothschild & Sons as financial advisors and MRDI as technical advisors to assist with this process.

During 2001, ZCI incurred a net loss of US\$86 million due to low copper and cobalt prices and operational difficulties at KCM. The copper price declined for much of the year reaching a low of 59.9 US cents per pound in November following the terrorist attack in New York. This is the lowest price for 15 years in nominal terms and the average price for the year of 71.6 US cents is the second lowest in real terms in the last one hundred years. The low prices coincided with a time when the benefits of the refurbishment programme at KCM had still not been fully realised, and operating costs remained high. Although cash operating costs have reduced from over 100 US cents per pound of copper at the time of vesting to an average level of 85 US cents per pound during 2001, KCM is, and without the Konkola Deep Mine will remain, a high cost producer.

During the year ended December 31, 2001, KCM continued with the refurbishment of the assets. By year end, some US\$178 million had been spent on the programme which was designed to address the severe under-investment which had occurred over many years. KCM committed in the Development Agreement to capital expenditure in the first three years post acquisition of US\$208 million in January 2000 money terms. That commitment will shortly be fulfilled.

Copper production for the year was 196,805 tonnes, 18% higher than in 2000 on an annualised basis but still below target, principally due to problems at the toll smelting facility at Nkana, delays in underground development at Konkola and the impact of the Nchanga open pit slope failure.

The Nkana smelter was shut down during July and August for a major overhaul but there continued to be intermittent problems with the oxygen plant, which constrained output. At Konkola, deteriorating ground conditions have given rise to the requirement for additional support and development work has fallen behind schedule. As a consequence, Konkola has not achieved the expected increase in production.

The catastrophic slope failure at the Nchanga open pit with the tragic death of ten employees was reported in detail in the Interim Report. A further eight employees suffered fatal accidents in unrelated incidents during the course of the year. Despite this unacceptable record on fatalities, safety standards and safety risk awareness amongst employees and contractors have improved. The Lost Time Injury Frequency Rate fell considerably during the year to average 0.47 per 200,000 man hours in the last quarter of 2001, down from 2.14 for the quarter following vesting. KCM also made significant progress on the community health campaigns initiated in 2000 to combat malaria and HIV/AIDS.

As at December 31, 2001 ZCI had provided US\$190 million to KCM under its US\$310 million share of the US\$370 million shareholder facilities. Since year end ZCI has provided a further US\$94 million to KCM of which US\$70 million has been used by KCM to repay bank loans. Absent new financial facilities, KCM will fully exhaust its cash resources around the end of the first quarter of this year. ZCI will in turn have fully drawn down its loan facility from Anglo American plc, which Anglo American has advised it will not increase.

Negotiations with all stakeholders are currently taking place through the KCM Shareholders' Steering Committee with the objective of putting each of ZCI and KCM on a sound financial footing with KCM maintaining operations on a going concern basis. However, there can be no assurance that such negotiations will lead to new financial facilities being made available to KCM.

I wish to record my appreciation of the continued efforts of all the employees of KCM in extremely difficult circumstances and pay particular tribute to Tim Wadeson, who was Chief Executive of KCM from the time of vesting until his retirement at the end of 2001.

S R Thompson  
Chairman

### **Operating statistics for KCM for the year ended December 31, 2001**

	<u>Year ended</u>	<u>Nine months ended</u>
	December 31, 2001	December 31, 2000
<b>Ore processing</b>		
Copper ore milled (t)	9,227,000	6,465,000
Cobalt ore milled (t)	794,000	789,000
<b>Metal in concentrate</b>		
Copper (t)	138,310	93,711
Cobalt (t)	3,272	3,129
<b>Finished production</b>		
Copper (t)	196,805	125,385
Cobalt (t)	2,422	1,659
<b>Metal sales</b>		
Copper (t)	196,231	107,607
Cobalt (t)	2,678	1,114
<b>Average price realised</b>		
Copper c/lb	75	84
Cobalt US\$/lb	8	11

The Company's annual report at December 31, 2001 will be posted to shareholders on or about March 21, 2002. Copies may be obtained from the transfer agents, Computershare Services Limited, Second Floor, Edura, 41 Fox Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107) South Africa and Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH or from the Company's French Listing Agents, Euro Emetteurs Finance, 48 boulevard des Batignolles, 75850 Paris, Cedex 17, France.

Bermuda  
March 15, 2002

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