Zambia Copper Investments Limited

Interim Report

June 2001

Company business

Zambia Copper Investments Limited ('ZCI' or the 'Company') is a Bermudian registered public company. Its principal asset is its holding of 65% of the share capital of Konkola Copper Mines PLC ('KCM'), a Zambian mining company which owns three operating copper 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'). The other shareholders in KCM are the International Finance Corporation (7.5%), CDC Group plc (7.5%) and ZCCM Investments Holdings PLC ('ZCCM') (20%). All of KCM's assets are located in the Republic of Zambia.

Chairman’s statement

During the six month period to June 30, 2001, ZCI incurred a consolidated net loss of US$38.2 million, due to low copper and cobalt prices and operational difficulties at ZCI’s operating subsidiary, KCM.

The rapid downturn in the world economy has resulted in very low metal prices that are expected to persist well into next year. Copper prices are currently less than 70 USc/lb. The outlook for KCM is therefore one of continued financial constraints in the near term.

Following the acquisition of the Konkola, Nchanga and Nampundwe assets from ZCCM on March 31, 2000, KCM embarked upon a major refurbishment programme at an estimated total capital cost of US$270 million. The aim of the programme is to address the underinvestment in the business that had previously occurred and systematically to reduce the high unit operating costs at the existing operations. By the end of June 2001, some US$112 million had been expended.

While refurbishment of the assets of KCM has continued, metal production did not increase to expected levels during the first half of 2001. This was mainly due to difficulties experienced at the toll smelting facility at Nkana, which resulted in excess stocks of copper concentrate, amounting to some 20,000 tonnes of contained copper, ahead of the smelter. The operational difficulties at the smelter are being addressed with a shut-down in July and August 2001 for major rehabilitation. The excess stocks of copper concentrate are expected to be treated during the first half of 2002.

Production at the Konkola mine has also been disappointing due to delays in underground development. As a result, production for the six months was only marginally higher than in the previous six months. Accelerated development work is being undertaken by KCM, which should result in improved performance in the remainder of the year.

As previously announced, there was a catastrophic slope failure at the Nchanga Open Pit in April 2001 which resulted in the movement of some 5 million tonnes of material and the death of ten employees. A further two employees also suffered fatal accidents in unrelated incidents during the six months. These tragic events are clearly unacceptable and my colleagues on the Board and I wish to convey our condolences to the families of the deceased. The management of KCM continues to make strenuous efforts to build a culture of safety on the mines.

Whilst production at the Nchanga Open Pit resumed within one month of the accident, the new mining plan and the future economics of the pit continue to be evaluated. The accident had a severe impact on production at KCM, which is expected to persist for some time.

In total, the shareholders of KCM have committed to provide funding of US$370 million, of which ZCI’s share is US$310 million. Anglo American plc, the 50.9% shareholder of ZCI, is currently providing loan facilities to ZCI in an amount of US$310 million to meet this commitment, of which ZCI has drawn down US$132 million. However, as previously advised to shareholders of ZCI, the Company will seek appropriate means of raising the necessary long-term capital required to meet its commitments to KCM.

Chairman's statement

continued

The KDMP feasibility study was completed during the period and is currently being reviewed. The KDMP will be a long-life mine with significantly lower operating costs than the existing operations and represents the main rationale for the acquisition of the assets. KCM and its shareholders are in the process of considering the implications of the current low metal prices on the optimal financing strategy for the KDMP. The Board will revert to shareholders with its proposals in due course.

The directors of ZCI wish to record their appreciation of the great efforts made by all the employees of KCM during what has been an exceptionally difficult six month period for the company.

S R Thompson
Chairman

August 21, 2001

Review of operations and projects

Financial results

ZCI incurred a consolidated net loss of US$38.2 million in the six months to June 30, 2001 compared with a loss of US$5.5 million in the period to June 30, 2000. The prior period included just three months performance of KCM following ZCI's acquisition of a 65% interest in that company in March 2000. The net loss includes an operating loss of US$41.1 million and net interest payable of US$10.3 million. The operating performance of KCM in the period is described in further detail below.

Metal markets

During the first half of 2001 base metal markets were characterised by weak demand, rising exchange inventories, a decline in investment fund activity and falling prices. The strong US dollar has both compounded the weakness of non-US demand and boosted revenues of non-US producers, whilst lowering aggregate mine cost curves. As a result, there have been relatively few price-related closures of mines to date.

These weak market conditions are expected to continue into the second half, at least until leading indicators of Industrial Production begin to pick up and/or price-induced mine cutbacks become more widespread.

Falling demand, which has been exacerbated by consumer de-stocking, particularly in the electronics and telecommunications markets, has resulted in a near 200,000 tonnes rise in London Metal Exchange and Comex copper stocks over the first half of this year. Prices, which averaged 80 USc/lb in the first quarter, had slipped back to just above 70 USc/lb at the end of June. With demand set to decline further during the third quarter, they are likely to come under renewed downward pressure. Against a general trend of falling demand, China stands out as an importer of increasing quantities of copper for its ambitious electrification programme.

Operations - Konkola Copper Mines PLC

(a) ***Safety, Health and Environment***

On Sunday, April 8, 2001, a major slope failure occurred in the south face of the Nchanga Open Pit. Over 5 million tonnes of failed material collapsed into the pit. Ten employees, who were working in the bottom of the pit at the time, lost their lives in this tragic accident. A full scale rescue and recovery operation was launched as soon as conditions were established to be safe for such an operation and the last body was recovered on Wednesday, April 25, 2001. Ingress of water into the pit, some 10 metres below the surface, is considered to be a major contributing factor to the slope failure. The 2000/1 rainy season was exceptionally wet with rainfall recorded at 1,708 mm, some 36% above average. An investigation into the full causes of the accident is continuing.

In addition, there were two other, unrelated, fatal accidents during the period under review, both of which are the subject of detailed investigations to establish cause and avoid repetition.

The improvement of safety standards continues to receive focused management attention. Training programmes at the operations continue, with all employees having now participated in safety awareness and avoidance courses. The Lost Time Injury Frequency Rate for the period showed an improving trend of 0.83 per 200,000 man hours, compared to 1.49 for the previous nine months.

The programme of residual spraying of houses reported on previously contributed to a 53% reduction in the incidence of malaria among employees and their dependants. The programme will be continued in the coming season. The HIV/AIDS prevalence study was completed and indicated an incidence of 18.3% amongst employees and contractors. Further evaluations are in progress to formulate the most appropriate interventions to reduce the spread of the disease, assist those who have contracted it, and to determine the impact of this prevalence on the company.

The Final Environmental Management Plan and the Final Social Management Plan were completed and have been presented to the regulatory authorities for approval. Approval is expected early in the third quarter after which KCM will commence implementation of the plans.

(b) ***Operating performance***

Copper ore mined at the Nchanga Open Pit amounted to 1.7 million tonnes, grading 2.18% copper, and cobalt ore amounted to 0.8 million tonnes, grading 0.65% cobalt. The open pit performed to budget until the accident in April referred to above. Although mining activity resumed within the month, the operations were severely affected, with constrained availability of ore. Several pieces of major equipment were destroyed in the accident and have yet to be replaced. Ore mined in the period was consequently some 21% below the previous six months.

Operations at Nchanga underground mine were satisfactory, producing 1.4 million tonnes of ore, grading 3.26% copper, compared to 1.3 million tonnes at 3.22% in the previous six month period.

Although Konkola underground mine produced 0.9 million tonnes of ore, grading 3.37%, compared to 0.6 million tonnes, grading 3.60% in the previous half year, this performance was below forecast. The rate of underground development was slower than had been anticipated, thus limiting the availability of ore. Better results are expected in the second half following the award of two contracts for accelerated ore and de-watering development.

In the period to June 30, 2001, 4.7 million tonnes of copper ore were milled, similar to the previous six months performance of 4.6 million tonnes. However, improvements in both grades and recoveries resulted in higher copper in concentrate production of 70,258 tonnes compared to 64,428 tonnes in the previous six months. Just 383,000 tonnes of cobalt ore were milled, compared with 407,000 tonnes achieved in the previous six months, due to the reduced availability of ore following the open pit accident.

Finished cathode production at the Tailings Leach Plant amounted to 35,741 tonnes, compared to 41,112 tonnes in the previous half year, in spite of recoveries improving from 67.6% to 69.7%. This was a result of the lower availability of oxide ore from the open pit and intermittent shortages of sulphuric acid, the bulk of which had to be imported.

The Nkana and Mufulira smelters, which toll treat KCM's copper, did not operate to satisfactory levels during the period and both are undergoing major rehabilitation. In spite of these constraints, refined cathode production was 54,744 tonnes, compared to 47,780 tonnes in the six months to December 31, 2000.

The Nkana smelter was shut down in July for major maintenance. Surplus stocks of concentrates amounting to approximately 20,000 tonnes of finished copper equivalent, are held ahead of the smelters. The treatment of these stocks is projected to commence in August 2001 and copper in concentrate stocks should return to more normal levels during the first half of 2002.

Finished cobalt production at 1,236 tonnes was at similar levels to the 1,228 tonnes produced in the previous period.

(c) *Refurbishment programme*

The refurbishment programme continued throughout the period. A total of US$73 million was committed, with major expenditure on underground development, mining equipment and rehabilitation of the Tailings Leach Plant. Progress was made in enhancing communication and information systems and significant benefits, in terms of better and more timely management information, are being realized.

Capital expenditure in the period amounted to US$42 million.

(d) *Outlook for second half of 2001*

The operational difficulties detailed earlier resulted in lower than forecast finished production of 90,485 tonnes copper and 1,236 tonnes cobalt in the six months to June 30, 2001. It is estimated that some 119,000 tonnes of copper and 1,100 tonnes of cobalt will be produced in the six months to December 2001.

The outlook for metal prices for the remainder of the current year and for the year 2002 remains a matter of concern. Most analysts now predict prices to remain at or below the 70 USc/lb level for the remainder of this year. This will severely impact on revenues and make it very difficult for the operations to become profitable in that time.

In view of this, the board and management of KCM are actively pursuing all means of conserving cash while continuing with the refurbishment programme in order to improve efficiencies, reduce costs and increase production. During the second half, increased emphasis will be placed on measures to improve the productivity of the workforce.

Konkola Deep Mining Project

The feasibility study, which revalidated earlier studies and provided further analysis of certain aspects of the KDMP, was completed in March 2001. The study has been modified to accommodate changes to production from the Nchanga Open Pit following the accident and from satellite pits at Nchanga. A review of metal prices and their impact on the project economics is also being undertaken in the light of the downturn in the world economy.

Financial position

KCM

KCM had drawn US$145 million by June 30, 2001 under the Subscription and Shareholder Loan Agreement in terms of which funding of US$370 million is committed to KCM by its shareholders. ZCI's share of the commitment is US$310 million of which US$117.8 million had been drawn by June 30, 2001. KCM also secured a US$60 million short-term borrowing facility, which has been fully drawn down, and overdraft facilities of US$20 million.

ZCI

Following completion of the KDMP feasibility study and the revision in metal price outlook, the directors are evaluating alternative ways of financing the Company's commitments to KCM and will revert to shareholders in due course with their proposals.

ZCI had drawn down US$131.9 million (including accrued interest) at June 30, 2001 under its US$310 million facility from Anglo American plc's wholly-owned subsidiary, A.R.H. Limited S.A..

Consolidated statement of earnings

for the six months ended June 30, 2001

	Notes	**Six months ended June 30, 2001**	Six months ended June 30, 2000	Year ended December 31, 2000
			in thousands of US dollars	
Turnover		**194,929**	44,183	229,004
Operating costs		**(236,054)**	(44,169)	(238,160)
Operating loss before interest and taxation		**(41,125)**	14	(9,156)
Interest and other financial income		**2,041**	817	1,886
Interest expense		**(12,423)**	(2,433)	(9,676)
Commitment fee on loan facility		**(1,000)**	(602)	(1,676)
General and administration expenses		**(863)**	(616)	(1,163)
Share of Konkola Project consortium expenses		**–**	(2,878)	(2,878)
Loss before taxation		**(53,370)**	(5,698)	(22,663)
Taxation	2	**(3,867)**	(130)	3,522
Loss after taxation		**(57,237)**	(5,828)	(19,141)
Loss attributable to minority interest		**19,022**	238	3,329
Net loss		**(38,215)**	(5,590)	(15,812)
			per ordinary share in US cents	
Headline loss before exceptional item and amortisation of goodwill		**(30.95)**	(4.45)	(12.56)
Net loss		**(31.18)**	(4.56)	(12.90)

See accompanying notes to the consolidated financial statements

Consolidated statement of retained earnings

for the six months ended June 30, 2001

	Six months ended June 30, 2001	Six months ended June 30, 2000	Year ended December 31, 2000
		in thousands of US dollars	
Accumulated deficit at the beginning of the period	**(21,793)**	(5,981)	(5,981)
Net loss	**(38,215)**	(5,590)	(15,812)
Accumulated deficit at the end of the period	**(60,008)**	(11,571)	(21,793)

See accompanying notes to the consolidated financial statements

Consolidated statement of financial position

as at June 30, 2001

	Notes	**June 30, 2001**	June 30, 2000*	December 31, 2000
			in thousands of US dollars	
Fixed assets				
Intangible assets		**5,959**	6,142	5,998
Deferred tax assets	2	**–**	–	3,794
Tangible assets		**207,915**	127,704	174,623
		213,874	133,846	184,415
Investments and advances		**38,649**	33,763	35,879
Current assets				
Stock		**101,669**	103,830	112,887
Accounts receivable		**57,715**	25,502	26,435
Cash and short-term investments		**7,853**	43,752	28,314
		167,237	173,084	167,636
Current liabilities				
Accounts payable and accrued liabilities		**77,034**	58,057	83,443
Net current assets		**90,203**	115,027	84,193
Long-term liabilities				
Long-term loans		**212,967**	85,598	120,091
Provisions		**78,332**	77,832	79,112
Deferred purchase consideration		**63,380**	60,000	60,000
Minority interest		**1,274**	23,996	20,296
Net assets		**(13,227)**	35,210	24,988
Capital and reserves				
Capital		**46,781**	46,781	46,781
Accumulated deficit		**(60,008)**	(11,571)	(21,793)
Shareholders' equity		**(13,227)**	35,210	24,988

* *See note 1*

Consolidated statement of cash flow

for the six months ended June 30, 2001

	Six months ended June 30, 2001	Six months ended June 30, 2000	Year ended December 31, 2000
		in thousands of US dollars	
Cash flow from operating activities			
Cash received from customers	**179,191**	18,894	213,990
Cash paid to suppliers and employees	**(242,098)**	(44,620)	(229,000)
Cash absorbed by operations	**(62,907)**	(25,726)	(15,010)
Interest received	**342**	709	1,461
Interest paid	**(2,618)**	–	(583)
Income tax paid	**(248)**	–	(28)
Net cash absorbed by operating activities	**(65,431)**	(25,017)	(14,160)
Cash flow from investing activities			
Costs of acquiring interest in KCM	**–**	(4,594)	(4,594)
Acquisition of assets from ZCCM	**–**	(30,000)	(30,000)
Capital expenditure	**(42,015)**	(3,531)	(71,185)
	(42,015)	(38,125)	(105,779)
Cash flow from financing activities			
Proceeds from external borrowings	**80,312**	77,187	96,000
Advances by minority shareholders in KCM	**4,688**	6,563	11,250
Equity subscriptions by minority shareholders	**–**	11,250	11,250
Net cash from financing activities	**85,000**	95,000	118,500
Net decrease in cash	**(22,446)**	31,858	(1,439)
Cash at the beginning of the period	**10,333**	11,772	11,772
Net (debt)/cash at the end of the period	**(12,113)**	43,630	10,333
Cash deposits and cash at bank	**7,731**	43,630	28,192
Bank overdraft – unsecured	**(19,844)**	–	(17,859)
Net (debt)/cash at the end of the period	**(12,113)**	43,630	10,333

Notes to the consolidated financial statements

1. Comparative Figures

Certain items included in the consolidated statement of financial position at June 30, 2000 have been reclassified in order to more closely align with the reporting followed in the subsequent periods.

2. Taxation

A deferred tax asset of US$3,794,000 recorded at December 31, 2000 has been reversed as the group no longer expects to generate taxable income in 2001, against which to recover the asset.

Production statistics

Production at KCM for the six months ended June 30, 2001

	Six months ended June 30, 2001		Six months ended December 31, 2000*	
	Tonnes ('000t)	Grades (%)	Tonnes ('000t)	Grades (%)
Copper ore mined				
– Nchanga Open Pit	1,717	2.18	2,683	2.42
– Nchanga Underground	1,423	3.26	1,337	3.22
– Konkola Underground	913	3.37	653	3.60
	4,053	2.83	4,673	2.81
Cobalt ore mined				
– Nchanga Open Pit	766	0.65	463	0.41
Tailings Leach Plant				
– Tailings treated	5,157	0.94	4,922	1.13

	Tonnes	Tonnes
Flotation		
– Copper ore milled	4,676,000	4,620,000
– Cobalt ore milled	383,000	407,000
Metal in concentrate produced		
– Copper in concentrate produced	70,258	64,428
– Cobalt in concentrate produced	1,566	1,873
Tailings Leach Plant		
– Finished copper produced	35,741	41,112
Smelting and refining		
– Tonnes concentrate treated	146,616	120,629
– Finished copper produced	54,744	47,780
Finished production		
– Copper	90,485	88,892
– Cobalt	1,236	1,228
Metal sales		
– Copper	93,079	84,732
– Cobalt	1,297	1,228
Average price realised		
– Copper USc/lb	81	85
– Cobalt US$/lb	9.77	11.46

* Provided due to there being no comparatives for the period to June 2000 as ZCI only acquired KCM on March 31, 2000.

Company details

Directors

S R Thompson *(Chairman)*
P M Baum
C J Colebank
G B R Collis (*Alternate* – J Macdonald)
H R Fraser
M J Gordon
G M Holford
A W Lea
W A Nairn

Secretary

D A L Bennett

Registered Office

Clarendon House
2 Church Street
Hamilton
Bermuda

Website

www.zci.lu

Transfer Secretaries

In South Africa

Computershare Services Limited
2nd Floor, Edura
41 Fox Street
Johannesburg 2001
South Africa
(PO Box 61051
Marshalltown 2107)

In the United Kingdom

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
United Kingdom

French Listing Agent

Euro Emetteurs Finance
48 boulevard des Batignolles
75850 Paris Cedex 17
France

Auditors

Deloitte & Touche
Corner House
Church and Parliament Streets
Hamilton HMFCC
Bermuda

Avocette Limited, London