

UNAUDITED INTERIM REPORT  
**ZAMBIA COPPER INVESTMENTS LIMITED**

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

**Consolidated statement of earnings**  
**for the six months ended June 30, 2004**  
*expressed in thousands of US Dollars*

	Unaudited Six months ended June 30, 2004	Unaudited Six months ended June 30, 2003	Audited Year ended December 31, 2003
Turnover	237,500	177,569	356,308
Cost of sales	(141,489)	(157,004)	(286,251)
Gross Profit	<u>96,011</u>	<u>20,565</u>	<u>70,057</u>
Other operating expenses	(36,017)	(34,357)	(75,282)
Depreciation	(5,761)	(8,186)	(9,840)
Profit / (Loss) from operations	<u>54,233</u>	<u>(21,978)</u>	<u>(15,065)</u>
Other income / (loss)	(866)	647	2,011
Interest income	5	7	11
Interest expense	(832)	(596)	(1,121)
General and administration expenses	(353)	(135)	(479)
Profit / (loss) before taxation	<u>52,187</u>	<u>(22,055)</u>	<u>(14,643)</u>
Taxation	(37)	(139)	(166)
Profit / (Loss) after taxation	<u>52,150</u>	<u>(22,194)</u>	<u>(14,809)</u>
(Profit) / Loss attributable to minority interest	<u>(21,657)</u>	<u>9,256</u>	<u>6,001</u>
Net Profit / (Loss)	<u><u>30,493</u></u>	<u><u>(12,938)</u></u>	<u><u>(8,808)</u></u>

per ordinary share in US cents

<b>Headline profit / loss before exceptional item and amortisation of goodwill</b>	24.16	(10.25)	(6.98)
<b>Exceptional income (none)</b>	-	-	-
<b>Exceptional expenses (none)</b>	-	-	-
<b>Net profit / (loss)</b>	<u><u>24.16</u></u>	<u><u>(10.25)</u></u>	<u><u>(6.98)</u></u>
Number of ordinary shares in issue	126,197,362	126,197,362	126,197,362

**Consolidated statement of financial position  
as at June 30, 2004**

*expressed in thousands of US Dollars*

	Unaudited Six months ended June 30, 2004	Unaudited Six months ended June 30, 2003	Audited Year ended December 31, 2003
<b>Fixed assets</b>			
Tangible fixed assets	142,894	83,102	116,011
Deferred Secondary Expenditure	31,521	28,029	25,771
	<u>174,415</u>	<u>111,131</u>	<u>141,782</u>
<b>Current assets</b>			
Stocks	85,965	75,891	87,648
Accounts receivable	51,424	43,033	46,924
Cash and short-term investments	15,083	17,803	4,761
	<u>152,472</u>	<u>136,727</u>	<u>139,549</u>
<b>Current liabilities</b>			
Short term loans and bank overdrafts	(9,158)	(13,805)	(25,933)
Accounts payable and accrued liabilities	(70,613)	(42,684)	(59,778)
	<u>(79,771)</u>	<u>(56,489)</u>	<u>(85,711)</u>
<b>Net current assets</b>	<u>72,701</u>	<u>80,238</u>	<u>53,838</u>
<b>Total assets less current liabilities</b>	247,116	191,369	195,620
<b>Long term liabilities</b>			
Long term loans	(35,195)	(35,093)	(35,142)
Provisions	(86,953)	(90,843)	(89,429)
Minority interest	(51,991)	(27,079)	(29,079)
<b>Net assets</b>	<u>72,977</u>	<u>38,354</u>	<u>41,970</u>
<b>Capital and reserves</b>			
Capital	508,807	508,807	508,807
Revaluation reserves	-	-	1,220
Hedging reserves	-	-	(1,734)
Accumulated deficit	(435,830)	(470,453)	(466,323)
	<u>72,977</u>	<u>38,354</u>	<u>41,970</u>
Number of ordinary shares in issue	126,197,362	126,197,362	126,197,362
Net asset value (per ordinary share) in USD cents	57.83	30.39	33.26



**Consolidated statement of cash flow**  
**for the six months ended June 30, 2004**  
*expressed in thousands of US Dollars*

	Unaudited Six months ended June 30, 2004	Unaudited Six months ended June 30, 2003	Audited Year ended December 31, 2003
<b>Cash flow from operating activities</b>			
Cash received from customers	234,935	180,188	355,792
Cash paid to suppliers and employees	(181,583)	(188,358)	(355,253)
<i>Cash generated / (utilized) by operations</i>	<u>53,352</u>	<u>(8,170)</u>	<u>539</u>
Interest received	5	7	-
Interest paid	(780)	(692)	(1,150)
Income tax paid	(41)	(170)	(256)
<i>Net cash generated / (utilized) by operating activities</i>	<u>52,536</u>	<u>(9,025)</u>	<u>(867)</u>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of tangible fixed assets	-	3	11
Proceeds from sale of short term investment	981	-	-
Capital expenditure	(32,644)	(20,282)	(54,838)
<i>Cash absorbed by investing activities</i>	<u>(31,663)</u>	<u>(20,279)</u>	<u>(54,827)</u>
<b>Cash flow from financing activities</b>			
Lease financing received	7,775	-	-
Lease financing repaid	(331)	-	-
<i>Cash generated by financing activities</i>	<u>7,444</u>	<u>-</u>	<u>-</u>
<b>Net increase / (decrease) in cash</b>	28,317	(29,304)	(55,694)
Net cash / (debt) at the beginning of the year	(22,392)	33,302	33,302
<b>Net cash / (debt) at the end of the year</b>	<u>5,925</u>	<u>3,998</u>	<u>(22,392)</u>
Cash deposits and cash at bank	15,083	17,803	3,541
Short term loans and bank overdraft - unsecured	(9,158)	(13,805)	(25,933)
<b>Net cash / (debt) at the end of the year</b>	<u>5,925</u>	<u>3,998</u>	<u>(22,392)</u>

The financial statements were prepared in accordance with International Financial Reporting Standards and in terms of the same accounting policies applied during the previous financial period.

## **CHAIRMAN'S STATEMENT**

As you will be aware, your Board together with the Board of KCM and KCM's other shareholders, namely the Government of the Republic of Zambia (GRZ) and ZCCM Investments Holdings plc (ZCCM-IH), have been actively involved in the search for a strategic equity partner for our subsidiary, Konkola Copper Mines ("KCM"). The purpose of this was to introduce a partner capable of providing strong technical assistance and financial support to ensure KCM's long-term future. After extensive and careful negotiations, I am pleased to tell you that agreement has been reached on the terms of the proposed partnership with Vedanta Resources plc.

The transaction is subject to the approval of the shareholders of ZCI at a general meeting of the Company, which will be convened for this purpose. A circular informing shareholders of the details of the terms and the actions required to be taken, will accompany the notice of general meeting which will be circulated in due course.

Under the terms of the agreement Vedanta would subscribe for new KCM shares and obtain a 51% interest in KCM. In return, Vedanta would inject US\$25 million into KCM, pay ZCI US\$23.2 million as deferred consideration payable over four years and be obliged, should the free cash flow of KCM be negative at any time during a period of nine years after completion of the transaction, to fund any cash shortfalls up to a cumulative amount of US\$220 million. As a result of the subscription, ZCI's stake in KCM would be reduced from 58% to 28.4% and ZCCM Investments Holdings plc's stake in KCM would be reduced from 48% to 20.6%.

The proposed subscription for new shares in KCM by Vedanta would considerably strengthen the balance sheet of KCM and the payment of US\$23.2 million directly to ZCI would significantly improve ZCI's financial position.

By retaining a 28.4% stake, ZCI shareholders would benefit from the added value that Vedanta would bring. Vedanta has previously demonstrated its ability to turn round under-performing assets. The remaining stake is subject to a call option agreement, which may be exercised by

Vedanta in circumstances where the underlying value in KCM's future development potential would be reflected fully in the exercise price.

On completion of the Vedanta agreement, it is intended that the Board of KCM will be reconstituted so as to comprise five Vedanta appointed directors, two ZCI appointed directors, two ZCCM-IH appointed directors and one GRZ appointed director (with limited voting rights).

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.

I turn now to the Company's results for the period ended 30 June 2004. Due largely to the consistently strong demand for copper and the related higher price levels when compared to the same period last year, the Company was able to record a consolidated net profit of US\$30.5 million. The average price for copper was US cents 121.1 per pound (December 2003: US cents 78 per pound). Cobalt sales for the period were at 48 tonnes at a realized price of US\$25.60 per pound. However, production of copper at KCM remained relatively low at 92,566 tonnes. This was due to a number of factors including a compressor problem at KCM during April 2004, the mining of significant ore tonnages at the Nchanga Open Pit mine that were not treatable by either the concentrator or the Nchanga Tailings Leach Plant (NTLP) in May 2004 and, low acid soluble copper feed into the NTLP in the first half of June 2004.

As always, the directors of ZCI wish to record their appreciation of the efforts made by all employees of KCM during this busy period, and at a time of great change and uncertainty for the Company, but which as a result of this new strategic partnership, promises to be the foundation for renewed stability, development and progress for the years ahead.

**B Ireton**  
Chairman

Bermuda  
September 9, 2004

**Registered Office**  
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Hamilton, Bermuda