Anaconda Nickel Limited
ACN 060 370 783

ANACONDA NICKEL LIMITED

AND ITS CONTROLLED ENTITIES

ACN 060 370 783

Half Year Financial Report
to 31 December 2001

ANACONDA NICKEL LIMITED AND ITS CONTROLLED ENTITIES
ACN 060 370 783

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2001

The Directors present their report together with the consolidated financial report of Anaconda Nickel Limited ("the Company" or "Anaconda") and its controlled entities ("the Consolidated Entity") for the half year ended 31 December 2001 and the independent review report thereon.

DIRECTORS

The Directors of the Company during or since the end of the half year are:

James Wilbert Campbell Chairman, Non Executive	Appointed Chairman 26 November 2001
Peter Johnston Chief Executive Officer	Appointed 28 November 2001
John Andrew Morrison Non Executive	
Ivan Glasenberg Non Executive	
Willy Strothotte (alternate Steven Isaacs) Non Executive	
Brian Beamish Non Executive	Appointed 22 October 2001
John Andrew Henry Forrest Non Executive, Deputy Chairman (formerly Chief Executive Officer and Deputy Chairman)	Resigned as Chief Executive Officer 16 November 2001
Johannes van Gaalen Non Executive	Appointed 21 January 2002
Ian Delaney Former Chairman, Non Executive	Resigned 18 October 2001
Christopher Neil Linegar Non Executive	Resigned 27 November 2001
Leslie Niven Stewart Executive, Technical Director	Resigned 21 January 2002

Unless otherwise indicated, all Directors held their positions throughout the entire half year and up to the date of this report.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the half year were the commissioning and operation of the Murrin Murrin nickel and cobalt open pit mine and processing facilities ("Murrin Murrin").

There were significant changes in the nature of the activities of the Consolidated Entity during the half year and these are detailed in the Strategic Review section of the Review of Operations and Results below.

REVIEW OF OPERATIONS AND RESULTS

STRATEGIC REVIEW

In June 2001, the Company commenced a Strategic Review of all operational and development activities. The outcomes of the Strategic Review were announced to Shareholders at the Company's Annual General Meeting on 28 November 2001. The key outcomes of the Strategic Review were:

- focus on improving the performance of Murrin Murrin;
- defer any further work on the Mt Margaret project and the Geraldton to Mt Margaret Natural Gas Pipeline project;
- seek to divest the Company's interest in the Officer Basin water project; and
- seek to divest of the Mt Weld Rare Earths project and defer other activities on non-core nickel projects.

One of the results of the Strategic Review was a significant management restructuring. The outcome of the restructuring is a focussed and lean operating team responsible for the delivery of sustainable results from Murrin Murrin. Budgets have been set focussing on increasing production and metal recoveries, whilst aggressively reducing operating costs.

As advised in the previous Annual Report, Mr Andrew Forrest retired as Chief Executive Officer on 16 November 2001, but remained as Deputy Chairman of the Board and was subsequently re-elected to the Board as a non executive Director at the Company's Annual General Meeting. Mr Peter Johnston was appointed the new Chief Executive Officer on 28 November 2001. In addition, a number of other Board appointments were made during the financial period to strengthen the executive and non executive management of the Company. Mr Andrew Forrest was appointed acting Chairman following the resignation of Mr Ian Delaney on 18 October 2001 and was succeeded by Mr James Campbell on 26 November 2001. Mr Brian Beamish was appointed a non executive Director on 22 October 2001. Mr Chris Linegar resigned as a non executive Director on 27 November 2001 and Mr Les Stewart resigned as Executive Director – Technical on 21 January 2002 being the date of Mr Stewart's formal retirement. Mr Johannes van Gaalen was appointed a non executive Director on 21 January 2002.

MURRIN MURRIN

Production from Murrin Murrin for the six months to 31 December 2001 was 13,123 tonnes of nickel and 700 tonnes of cobalt compared with 8,391 tonnes of nickel and 577 tonnes of cobalt for the corresponding six month period last year. Production for the period was significantly affected by the planned major maintenance shut down during September and October. The shut down incorporated rectification work as part of the ramp-up schedule, statutory inspections and major works in the acid plant, the pressure acid leaching and mixed sulphide circuits.

Anaconda Operations Pty Ltd ("ANO") on behalf of the Murrin Murrin Joint Venturers continued its legal proceedings against Fluor Daniel ("Fluor") during the financial period. ANO entered into formal arbitration hearings in January 2002 in relation to claims and counter claims. ANO's claim against Fluor is for breach of contract for defective design, construction and workmanship, delay costs, extra mobilisation and liquidated damages.

CORPORATE

On 29 June 2001, the Company lodged a prospectus with the ASIC offering a 1 for 4.1 pro rata renounceable rights issue at an issue price of $1.55 per share. The Company entered into an Underwriting Agreement with Glencore International AG ("Glencore") pursuant to which Glencore agreed to underwrite the rights issue in full. Upon lodgement of the prospectus on 29 June 2001, Glencore advanced the Company $92 million by way of pre funding on the rights issue. On 24 August 2001, the rights issue closed and accordingly 90,488,375 shares were allotted on 7 September 2001, raising $140.26 million.

The proceeds from the rights issue were used by the Consolidated Entity to fund the redemption by Murrin Murrin Investments Limited of its $0.40 Unsecured Notes on 3 July 2001, with the balance providing working capital for the ramp up of Murrin Murrin and costs of the issue.

At an extraordinary general meeting on 9 January 2002, shareholders of the Company approved a number of agreements between the Consolidated Entity and Glencore. Glencore is a major shareholder of the Company. The extraordinary general meeting approved offtake agreements for the sale of all nickel and cobalt produced by Murrin Murrin. In addition, working capital facilities were provided by Glencore to assist the Company with its short term financing. The terms of these transactions are outlined in the Events Subsequent to Balance Date section below.

The loss from ordinary activities after tax and outside equity interests was $457,534,000 (2000: $7,375,000). Changes in accounting policies, other write downs and financing costs contributed $411.3 million to this result for the six months ended 31 December 2001, as follows:

	$ Million
Provisions/write downs due to changes in accounting policies	
Inventory written off	13.0
Provision for exploration and evaluation	61.7
Provision for impairment of property, plant and equipment	229.4
Provision for mine properties	2.1
Total	**306.2**
Other provisions/write downs	
Provision for inventory obsolescence	2.6
Provision for write down of property, plant and equipment	28.8
Provision for doubtful debts	8.6
Provision for rehabilitation	3.8
Total	**43.8**
Financing costs	
Borrowing costs	36.4
Undesignated foreign exchange losses	24.9
Total	**61.3**
Total	**411.3**

FINANCIAL POSITION

The Consolidated Entity incurred a loss from ordinary activities of $457,534,000 for the half year ended 31 December 2001. At 31 December 2001 the Consolidated Entity had shareholders' equity of $48,673,000 and a working capital deficiency of $2,713,000. Subsequent to 31 December 2001, the Consolidated Entity received US$5.0 million under a financing working capital facility with Glencore.

The result for the half year period was significantly affected by:

- provisions/write downs due to changes in accounting policies of $306.2 million;
- other provisions/write downs of $43.8 million; and
- financing costs and foreign exchange losses of $61.3 million.

In addition, the Consolidated Entity was adversely impacted by cost and production issues associated with the ramp up of Murrin Murrin as well as relatively poor nickel and cobalt prices. These circumstances have also put pressure on the Consolidated Entity's working capital position.

The Consolidated Entity appointed Mr Peter Johnston as Chief Executive Officer on 28 November 2001. Mr Johnston has extensive senior resource industry experience with Alcoa of Australia Ltd and most recently with WMC Ltd. Since that time the following steps have been taken:

- a new management team has been appointed;
- head office overheads have been reduced through an organisational restructuring;
- office accommodation has been rationalised;
- an 18 month budget has been prepared showing increasing production and metal recoveries, cost reductions and improved controls over capital expenditure resulting in positive operating cash flows;
- the statement of financial position has been reviewed; and
- a working capital facility for US$11.5 million with Glencore has been finalised.

A number of key challenges have also been identified including:

- one of the controlled entities, MMH, has been in a US$2,000,000 event of default of a borrowing indenture since November 1999 and there have been instances of procedural defaults;
- MMH did not replenish its Debt Service Reserve account in the amount of US$15,937,000 as required by a borrowing indenture on 1 March 2002 and thereafter. Such a failure would constitute an event of default 30 days thereafter;
- a forecast cash deficiency resulting from payment obligations to secured bondholders, secured foreign exchange counterparties and other secured creditors, although the extent of the deficiency cannot be predicted with certainty;
- in March 2002, a secured foreign exchange counterparty has requested MMH to provide US$5.2 million collateral pursuant to its purported exercise of its rights under financing arrangements. The Directors believe that, supported by legal advice, there is no present obligation to meet this payment.

Accordingly, the Consolidated Entity's ability to continue as a going concern is dependant upon a number of factors, in particular:

- the future performance of Murrin Murrin, which will be subject to general economic conditions, commodity prices, certain input prices and financial, business and other factors affecting Murrin Murrin, many of which are beyond the Consolidated Entity's control;
- its ability to meet planned capital expenditure and debt service requirements; and
- its ability to obtain working capital.

The Directors believe that the going concern basis of preparation is appropriate for the following reasons:

- the new management team has implemented organisational change that it expects will significantly reduce future costs;
- the Consolidated Entity's cash flow forecasts indicate a net cash outflow of approximately $10 million for the 12 months ending 31 December 2002, before any debt service or hedging obligations. The forecasts are significantly affected by Murrin Murrin's ability to deliver budgeted nickel/cobalt production and prevailing commodity prices;
- the Consolidated Entity had a cash balance of $5,278,000 at 31 December 2001. Subsequent to 31 December 2001, the Consolidated Entity received US$5.0 million under a financing working capital facility with Glencore;
- the Consolidated Entity has engaged the US investment bank Lazard Frères & Co LLC and its Australian affiliate The Caliburn Partnership Pty Ltd to advise on the potential alternatives available to the Consolidated Entity including a possible restructuring of its debt. The Consolidated Entity's advisers have conducted due diligence, independent reserve audits have been done and a business valuation and debt service analysis model has been prepared. A formal timetable has been established for developing these financing alternatives;
- on 15 March 2002, the Consolidated Entity commenced initial discussions addressing both short and long term liquidity issues with secured creditors. Following these discussions, the Consolidated Entity, Glencore and representatives of the secured creditors reached agreement on a US$10.0 million working capital facility for the Murrin Murrin Joint Venture. This agreement is subject to final approval by the secured creditors and final documentation acceptable to the parties. The Directors have a reasonable expectation that a favourable outcome will result, although this cannot be predicted with certainty. This facility will assist the Consolidated Entity in meeting project cash call requirements. Negotiations with secured creditors regarding its longer term liquidity are anticipated to take several months;
- the ability of the Consolidated Entity to restructure its present obligations under financing and hedging facilities, is dependent upon successful negotiations with financiers and other counterparties. Based on progress and discussions to date and the outcomes of similar restructurings, the Directors have a reasonable expectation that these negotiations will result in an acceptable restructuring of the Consolidated Entity's debt and addition of working capital;
- discussions with the Consolidated Entity's major suppliers and unsecured creditors have been favourable with major suppliers continuing to support the Murrin Murrin project; and
- the Fluor arbitration has commenced and is expected to conclude mid-2002 and the Directors have a reasonable expectation that a favourable net outcome will result, although this cannot be predicted with certainty.

The Consolidated Entity will continue formal negotiations with its secured creditors in the ensuing months and has a reasonable expectation to restructure its debt and to recapitalise the Consolidated Entity. In the absence of alternative funding arrangements, one of the possible outcomes in the recapitalisation process could involve a substantial rights issue at a discount to the share price. In such circumstances, existing shareholders who do not follow their rights may be substantially diluted. Anaconda has also invited secured creditors to conduct due diligence on the Murrin Murrin project in order to facilitate a project valuation and an acceptable restructuring agreement. A possible outcome of this process is that the Consolidated Entity may need to review the carrying amounts of non-current assets and further provisions/write downs may arise.

However, the timing and outcome of these negotiations are uncertain and in the event that appropriate arrangements are either not agreed or are delayed, the terms of the relevant financing and hedging facilities are such that all present obligations under these facilities will become due and payable. Should these negotiations not succeed or become delayed, then the Consolidated Entity likely will not be able to continue as a going concern and may be required to realise assets and to extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2001 (Cont.)

EVENTS SUBSEQUENT TO BALANCE DATE

Prior to 31 December 2001 the Consolidated Entity entered into a series of further agreements designed to provide additional working capital to the Consolidated Entity and provide sales facilities for Murrin Murrin's nickel and cobalt. These agreements were ratified by members of the Company at the extraordinary general meeting of shareholders on 9 January 2002 and facilitated the following transactions:

- Glencore provided approximately US$35 million by way of a loan (of which US$10 million was provided in November 2001 and the remaining US$25 million was provided in February 2002) to Murrin Murrin Resources Pty Ltd ("MMR"), a wholly owned controlled entity of the Company (the "Glencore loan");
- MMR provided approximately US$35 million to the Company;
- the Company subscribed to US$10 million new ordinary shares in Anaconda Nickel Holdings Pty Limited ("ANH"), a wholly owned subsidiary of the Company;
- ANH subscribed for US$10 million new ordinary shares in Murrin Murrin Holdings Pty Limited ("MMH");
- ANH provided a US$10 million guarantee over the Glencore loan to MMR. MMR has provided additional security through a fixed and floating charge and mortgage over its assets to Glencore;
- the Company has paid approximately US$25.8 million to MMH as an advance payment under an extension of an existing forward sales agreement between the Company and MMH;
- in February 2002, MMH repaid Glencore approximately US$25.8 million to pay out the existing Nickel Forward Exchange Contract with Glencore. This contract was subsequently cancelled;
- MMH has entered into a Nickel Offtake Agreement ("NOA") and a Cobalt Offtake Agreement ("COA") with Glencore. Proceeds from product sales under the NOA and COA will be used by MMH to repay the Glencore loan. The NOA allows Glencore to purchase up to 40,000 tonnes of nickel per annum from MMH for a period up to 30 November 2006. The COA allows Glencore to purchase MMH's entire share of cobalt produced by Murrin Murrin up until 31 December 2003, with a three year renewal contemplated, with annual price negotiations.

In addition to those arrangements discussed above, Glencore agreed to enter into further negotiations with the Company for an additional working capital facility of US$11.5 million. The Company has drawn down on US$11.5 million of this facility of which US$6.5 million was received prior to the half year end and US$5.0 million was received subsequent to the half year end.

On 15 March 2002, the Consolidated Entity commenced initial discussions addressing both short and long term liquidity issues and long term debt restructuring options with secured creditors. Negotiations with secured creditors are anticipated to take several months.

On 22 March 2002, the Consolidated Entity, Glencore and representatives of the secured creditors reached an agreement on a US$10.0 million working capital facility for the Murrin Murrin Joint Venture. This facility will assist the Consolidated Entity in meeting project cash call requirements.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2001 (Cont.)

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and Director's report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Dated at Perth this 25th day of March 2002

Signed in accordance with a resolution of Directors.

James Campbell
Chairman

Peter Johnston
Chief Executive Officer

ANACONDA NICKEL LIMITED AND ITS CONTROLLED ENTITIES
ACN 060 370 783

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED
31 DECEMBER 2001

	Note	31 December 2001 $'000	31 December 2000 $'000
Revenue from operations		93,174	-
Cost of Product Sold			
Costs of production		(101,185)	-
Depreciation and amortisation		(19,077)	-
Royalties		(2,119)	-
Gross loss from the sale of product		(29,207)	-
Other revenue from ordinary activities		4,993	1,431
Borrowing costs		(36,438)	(959)
Other expenses from ordinary activities		-	-
Write down / provisions due to accounting policy changes		(306,211)	-
Other provisions and asset write downs		(43,782)	-
Provisions for losses on foreign exchange contracts not regarded as specific hedges		(24,873)	(4,928)
Other expenses		(21,869)	(5,869)
Loss from ordinary activities before income tax	3	(457,387)	(10,325)
Income tax benefit attributable to loss from ordinary activities		27	3,016
Loss from ordinary activities after income tax		(457,360)	(7,309)
Profit from ordinary activities attributable to outside equity interests		(174)	(66)
Loss from ordinary activities attributable to members of the parent entity		**(457,534)**	**(7,375)**
Basic loss per share (cents per share)		(106.93)	(2.01)

The consolidated statement of financial performance should be read in conjunction with the accompanying notes.

ANACONDA NICKEL LIMITED AND ITS CONTROLLED ENTITIES
ACN 060 370 783

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2001

	Note	31 December 2001 $'000	30 June 2001 $'000
Current Assets			
Cash assets		5,278	96,867
Receivables		62,524	61,322
Inventory		47,002	55,166
Other		1,298	4,046
Total Current Assets		**116,102**	**217,401**
Non - Current Assets			
Receivables		8,626	15,273
Other financial assets		-	901
Inventory		19,625	27,945
Property, plant and equipment		616,171	882,955
Exploration, evaluation and development		92,667	149,627
Deferred tax assets		382	354
Deferred unrealised foreign exchange loss		238,036	248,053
Other		858	858
Total Non - Current Assets		**976,365**	**1,325,966**
Total Assets		**1,092,467**	**1,543,367**
Current Liabilities			
Payables		64,899	86,793
Interest bearing liabilities		23,333	142,252
Provisions		30,583	26,060
Other		-	12,227
Total Current Liabilities		**118,815**	**267,332**
Non-Current Liabilities			
Payables		35,884	35,608
Interest bearing liabilities		835,091	833,045
Provisions		5,018	1,165
Deferred tax liabilities		129	129
Deferred revenue		48,857	37,073
Total Non-Current Liabilities		**924,979**	**907,020**
Total Liabilities		**1,043,794**	**1,174,352**
Net Assets		**48,673**	**369,015**
Equity			
Contributed equity	4	539,869	402,851
Accumulated losses	5	(491,551)	(34,017)
Total Parent Equity Interest		**48,318**	**368,834**
Outside equity interests		355	181
Total Equity		**48,673**	**369,015**

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

ANACONDA NICKEL LIMITED AND ITS CONTROLLED ENTITIES
ACN 060 370 783

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2001

	31 December 2001 $'000	31 December 2000 $'000
Cash Flows from Operating Activities		
Cash receipts in the course of operations	92,473	247
Cash payments in the course of operations	(135,386)	(4,210)
Payments for undesignated hedge close outs	(23,087)	-
Interest received	1,231	2,117
Interest paid	(36,040)	(1,197)
Net cash used in operating activities	(100,809)	(3,043)
Cash Flows From Investing Activities		
Proceeds from sales revenue capitalised	7,363	60,867
Payments for exploration, evaluation and development	(3,652)	(99,902)
Proceeds from sale of exploration, evaluation and development	1,250	-
Payments for property, plant and equipment	(20,245)	(14,939)
Payments to term deposits	(4,275)	(560)
Operating lease payments capitalised	-	(3,676)
Payments for purchases of equity investments	-	(1,280)
Proceeds from sale of equity investments	1,266	3,422
Loans to non related entities	-	(14,564)
Proceeds from insurance settlement	-	67,800
Proceeds from sale of property, plant and equipment	-	85
Net cash used in investing activities	(18,293)	(2,747)
Cash Flows From Financing Activities		
Proceeds from issue of shares	140,258	6,259
Share issue costs	(3,240)	-
Repayment of rights issue pre funding	(92,000)	-
Repayments of borrowings	(33,907)	(20,764)
Proceeds from borrowings	19,436	-
Borrowing costs capitalised	-	(34,295)
Lease payments	(3,077)	(296)
Interest received capitalised	-	1,444
Net cash provided by / (used in) financing activities	27,470	(47,652)
Net decrease in cash held	(91,632)	(53,442)
Cash at beginning of financial period (net of bank overdraft)	96,734	95,564
Effects of exchange rate changes on the balances of cash held in foreign currencies	176	81
Cash at end of financial period (net of bank overdraft)	**5,278**	**42,203**

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Statement of significant accounting policies

(a) Basis of preparation of half year financial report

The half year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard 1029 "Interim Financial Reporting", other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. It is recommended that this half year financial report be read in conjunction with the 30 June 2001 Annual Financial Report and any public announcements by Anaconda Nickel Limited ("Anaconda" or "the Company") and its Controlled Entities during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

Financial Position

The consolidated financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

The Consolidated Entity incurred a loss from ordinary activities of $457,534,000 for the half year ended 31 December 2001. At 31 December 2001 the Consolidated Entity had shareholders' equity of $48,673,000 and a working capital deficiency of $2,713,000. Subsequent to 31 December 2001, the Consolidated Entity received US$5.0 million under a financing working capital facility with Glencore.

The result for the half year period was significantly affected by:

- provisions/write downs due to changes in accounting policies of $306.2 million;
- other provisions/write downs of $43.8 million; and
- financing costs and foreign exchange losses of $61.3 million.

In addition, the Consolidated Entity was adversely impacted by cost and production issues associated with the ramp up of Murrin Murrin as well as relatively poor nickel and cobalt prices. These circumstances have also put pressure on the Consolidated Entity's working capital position.

The Consolidated Entity appointed Mr Peter Johnston as Chief Executive Officer on 28 November 2001. Mr Johnston has extensive senior resource industry experience with Alcoa of Australia Ltd and most recently with WMC Ltd. Since that time the following steps have been taken:

- a new management team has been appointed;
- head office overheads have been reduced through an organisational restructuring;
- office accommodation has been rationalised;
- an 18 month budget has been prepared showing increasing production and metal recoveries, cost reductions and improved controls over capital expenditure resulting in positive operating cash flows;
- the statement of financial position has been reviewed; and
- a working capital facility for US$11.5 million with Glencore has been finalised.

A number of key challenges have also been identified including:

- one of the controlled entities, MMH, has been in a US$2,000,000 event of default of a borrowing indenture since November 1999 and there have been instances of procedural defaults;
- MMH did not replenish its Debt Service Reserve account in the amount of US$15,937,000 as required by a borrowing indenture on 1 March 2002 and thereafter. Such a failure would constitute an event of default 30 days thereafter;

1. Statement of significant accounting policies (cont.)

- a forecast cash deficiency resulting from payment obligations to secured bondholders, secured foreign exchange counterparties and other secured creditors, although the extent of the deficiency cannot be predicted with certainty;
- in March 2002, a secured foreign exchange counterparty has requested MMH to provide US$5.2 million collateral pursuant to its purported exercise of its rights under financing arrangements. The Directors believe that, supported by legal advice, there is no present obligation to meet this payment.

Accordingly, the Consolidated Entity's ability to continue as a going concern is dependant upon a number of factors, in particular:

- the future performance of Murrin Murrin, which will be subject to general economic conditions, commodity prices, certain input prices and financial, business and other factors affecting Murrin Murrin, many of which are beyond the Consolidated Entity's control;
- its ability to meet planned capital expenditure and debt service requirements; and
- its ability to obtain working capital.

The Directors believe that the going concern basis of preparation is appropriate for the following reasons:

- the new management team has implemented organisational change that it expects will significantly reduce future costs;
- the Consolidated Entity's cash flow forecasts indicate a net cash outflow of approximately $10 million for the 12 months ending 31 December 2002, before any debt service or hedging obligations. The forecasts are significantly affected by Murrin Murrin's ability to deliver budgeted nickel/cobalt production and prevailing commodity prices;
- the Consolidated Entity had a cash balance of $5,278,000 at 31 December 2001. Subsequent to 31 December 2001, the Consolidated Entity received US$5.0 million under a financing working capital facility with Glencore;
- the Consolidated Entity has engaged the US investment bank Lazard Frères & Co LLC and its Australian affiliate The Caliburn Partnership Pty Ltd to advise on the potential alternatives available to the Consolidated Entity including a possible restructuring of its debt. The Consolidated Entity's advisers have conducted due diligence, independent reserve audits have been done and a business valuation and debt service analysis model has been prepared. A formal timetable has been established for developing these financing alternatives;
- on 15 March 2002, the Consolidated Entity commenced initial discussions addressing both short and long term liquidity issues with secured creditors. Following these discussions, the Consolidated Entity, Glencore and representatives of the secured creditors reached agreement on a US$10.0 million working capital facility for the Murrin Murrin Joint Venture. This agreement is subject to final approval by the secured creditors and final documentation acceptable to the parties. The Directors have a reasonable expectation that a favourable outcome will result, although this cannot be predicted with certainty. This facility will assist the Consolidated Entity in meeting project cash call requirements. Negotiations with secured creditors regarding its longer term liquidity are anticipated to take several months;
- the ability of the Consolidated Entity to restructure its present obligations under financing and hedging facilities, is dependent upon successful negotiations with financiers and other counterparties. Based on progress and discussions to date and the outcomes of similar restructurings, the Directors have a reasonable expectation that these negotiations will result in an acceptable restructuring of the Consolidated Entity's debt and addition of working capital;
- discussions with the Consolidated Entity's major suppliers and unsecured creditors have been favourable with major suppliers continuing to support the Murrin Murrin project; and
- the Fluor arbitration has commenced and is expected to conclude mid-2002 and the Directors have a reasonable expectation that a favourable net outcome will result, although this cannot be predicted with certainty.

1. Statement of significant accounting policies (cont.)

The Consolidated Entity will continue formal negotiations with its secured creditors in the ensuing months and has a reasonable expectation to restructure its debt and to recapitalise the Consolidated Entity. In the absence of alternative funding arrangements, one of the possible outcomes in the recapitalisation process could involve a substantial rights issue at a discount to the share price. In such circumstances, existing shareholders who do not follow their rights may be substantially diluted. Anaconda has also invited secured creditors to conduct due diligence on the Murrin Murrin project in order to facilitate a project valuation and an acceptable restructuring agreement. A possible outcome of this process is that the Consolidated Entity may need to review the carrying amounts of non-current assets and further provisions/write downs may arise.

However, the timing and outcome of these negotiations are uncertain and in the event that appropriate arrangements are either not agreed or are delayed, the terms of the relevant financing and hedging facilities are such that all present obligations under these facilities will become due and payable. Should these negotiations not succeed or become delayed, then the Consolidated Entity likely will not be able to continue as a going concern and may be required to realise assets and to extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

Other

The consolidated financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy as described in note 2, are consistent with those of the previous year.

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at the end of the half year. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have been discounted to their present value.

The half year report does not include full note disclosure of the type normally included in an annual financial report.

Unless otherwise noted, all amounts are expressed in Australian dollars.

(b) Reclassification of financial information

Some line items and sub-totals reported in the previous reporting periods have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2001 of the revised standard AASB 1029 “Interim Financial Reporting” and the first time application at 30 June 2001 of AASB 1018 “Statement of Financial Performance” and AASB 1040 “Statement of Financial Position”.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closed accumulated losses from the face of the statement of financial performance to note 5.

Revenue and expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant items in note 3. These items are no longer identified separately on the face of the statement of financial performance.

2. Changes in accounting policy

(a) Exploration, evaluation and development expenditure

Prior to 1 July 2001, exploration, evaluation and development costs were carried forward where right of tenure of the area of interest was current and where exploration and evaluation activities in the area of interest had not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest was abandoned or it was decided that it is not commercial, any accumulated costs in respect of that area were written off in the financial period the decision is made.

2. Changes in accounting policy (cont.)

(i) Exploration and evaluation

Effective 1 July 2001, where right of tenure is current full provision is raised against all expenditure in the period in which those expenditures are incurred. Expenditure incurred to 30 June 2001 has been provided for in full. If it is subsequently established that a project has reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, the accumulated expenditures are transferred to development costs and associated matching provisions are reversed to the statement of financial performance. If an area is abandoned, all expenditure is written off and associated matching provision reversed.

The change in accounting policy has been implemented to improve the relevance and reliability of the Consolidated Entity's financial report.

The change in accounting policy has resulted in a charge to the statement of financial performance of $61.7 million for the six months ended 31 December 2001.

(ii) Development

Development costs related to an area of interest where right of tenure is current are carried forward to the extent that they are expected to be recouped through sale or successful exploitation of the area of interest. There is no change to the Consolidated Entity's accounting policy with respect to development expenditure.

(b) Inventories

Inventories are valued at the lower of cost and net realisable value. High and medium grade ore stocks, work in progress and finished product costs are allocated on an average basis and include direct materials, labour and other fixed and variable overhead costs.

Prior to 1 July 2001, mining costs were allocated to high, medium and low grade stocks. Effective 1 July 2001, mining costs are not allocated to the value of low grade ore stocks, but are charged directly to the statement of financial performance.

The change in accounting policy has been adopted as a result of changes to ore cut off grades.

The change in accounting policy has resulted in low grade ore stocks as at 1 July 2001, being written off totalling $9.6 million. In addition, further costs of $3.4 million have been expensed during the six months ended 31 December 2001 as a result of this change in policy.

The total charge to the statement of financial position for the six months ended 31 December 2001 is $13.0 million.

(c) Non-Current Assets

Prior to 1 July 2001, relevant cash flows had not been discounted to their net present value, except where specifically stated, when assessing the recoverable amount of non-current assets. In assessing recoverable amount of non-current assets at 31 December 2001 relevant cash flows have been discounted.

All non-current assets, excluding exploration and evaluation expenditure carried forward, are reviewed for impairment if events or changes in circumstances indicate that the carrying value of an individual asset or a cash generating unit may not be recoverable. A cash generating unit represents an identifiable group of assets and liabilities that generates cash inflows from continuing use that are largely independent of the cash flows from other assets or group of assets.

2. Changes in accounting policy (cont.)

The recoverable amount is to be assessed by reference to the net present value of expected future cash flows of the relevant cash generating unit, or disposal value if higher. The cash flow projections represent ungeared pre-tax cash flows based on reasonable and supportable assumptions that reflect use of the asset in its current condition. The discount rate reflects an estimate of the pre-tax weighted average cost of capital for the relevant asset or cash generating unit and does not reflect risks for which future cash flows have been adjusted.

The change in accounting policy has been implemented to improve the reliability and relevance of the Consolidated Entity's financial report.

The change in accounting policy has resulted in a provision for carrying value of $231.5 million and a charge to the statement of performance for the same amount for the six months ended 31 December 2001. The provision has been applied against the carrying value of mine properties and borrowing costs within property, plant and equipment.

3. Individually Significant Items

	Consolidated	
	31 December 2001 $'000	31 December 2000 $'000
Individually significant items included in loss from ordinary activities before income tax expense:		
Provision for losses on foreign exchange contracts not regarded as specific hedges	24,873	4,928
Provision for impairment in property, plant and equipment	229,400	-
Provision for write down in property, plant and equipment	28,792	-
Provision for write down in mine properties	2,070	-
Provision for exploration and evaluation	61,658	-
Provision for doubtful debts	8,645	-
Inventory written off	13,083	-
Provision for inventory obsolescence	2,561	-
Provision for rehabilitation	3,874	-

4. Contributed Equity

	Consolidated	
	31 December 2001 $'000	30 June 2001 $'000
Balance at the beginning of the half year	402,851	391,064
Rights issue (i)	140,258	-
Rights issue costs	(3,240)	-
Shares issued under the Anaconda Nickel Employee Share Plan	-	5,528
Shares issued under the Anaconda Nickel Senior Executive Senior Option Incentive Plan	-	6,259
Balance at the end of the half year	539,869	402,851

(i) On 29 June 2001, the Company lodged a prospectus with the ASIC offering a 1 for 4.1 pro rata renounceable rights issue at an issue price of $1.55 per share. On 24 August 2001, the rights issue closed and accordingly 90,488,375 shares were allotted on 7 September 2001, raising $140.26 million.

5. Accumulated losses

	Consolidated	
	31 December 2001 $'000	31 December 2000 $'000
Retained profits / (accumulated losses) at the beginning of the half year	(34,017)	49,383
Loss from ordinary activities after income tax	(457,534)	(7,375)
Retained profits/(accumulated losses) at the end of the half year	(491,551)	42,008

6. Dividends

No dividends have been paid during the half year period to 31 December 2001, nor have the Directors recommended that any dividend be paid.

7. Non Cash Finance and Investing Activities

	Consolidated	
	31 December 2001 $'000	31 December 2000 $'000
Fair value of plant and equipment acquired by means of finance leases, not reflected in the Statement of Cash Flows.	-	522

8. Contingent assets and liabilities

There have been no significant changes to contingent assets or liabilities since 30 June 2001.

9. Events Subsequent To Balance Date

Prior to 31 December 2001 the Consolidated Entity entered into a series of further agreements designed to provide additional working capital to the Consolidated Entity and provide sales facilities for Murrin Murrin's nickel and cobalt. These agreements were ratified by members of the Company at the extraordinary general meeting of shareholders on 9 January 2002 and facilitated the following transactions:

- Glencore provided approximately US$35 million by way of a loan (of which US$10 million was provided in November 2001 and the remaining US$25 million was provided in February 2002) to Murrin Murrin Resources Pty Ltd ("MMR"), a wholly owned controlled entity of the Company (the "Glencore loan");
- MMR provided approximately US$35 million to the Company;
- the Company subscribed to US$10 million new ordinary shares in Anaconda Nickel Holdings Pty Limited ("ANH"), a wholly owned subsidiary of the Company;
- ANH subscribed for US$10 million new ordinary shares in Murrin Murrin Holdings Pty Limited ("MMH");
- ANH provided a US$10 million guarantee over the Glencore loan to MMR. MMR has provided additional security through a fixed and floating charge and mortgage over its assets to Glencore;
- the Company has paid approximately US$25.8 million to MMH as an advance payment under an extension of an existing forward sales agreement between the Company and MMH;
- in February 2002, MMH repaid Glencore approximately US$25.8 million to pay out the existing Nickel Forward Exchange Contract with Glencore. This contract was subsequently cancelled;
- MMH has entered into a Nickel Offtake Agreement ("NOA") and a Cobalt Offtake Agreement ("COA") with Glencore. Proceeds from product sales under the NOA and COA will be used by MMH to repay the Glencore loan. The NOA allows Glencore to purchase up to 40,000 tonnes of nickel per annum from MMH for a period up to 30 November 2006. The COA allows Glencore to purchase MMH's entire share of cobalt produced by Murrin Murrin up until 31 December 2003, with a three year renewal contemplated, with annual price negotiations.

In addition to those arrangements discussed above, Glencore agreed to enter into further negotiations with the Company for an additional facility of US$11.5 million. The Company has drawn down on US$11.5 million of this facility of which US$ 6.5 million was received prior to the half year end and US$5.0 million was received subsequent to the half year end.

On 15 March 2002, the Consolidated Entity commenced initial discussions addressing both short and long term liquidity issues and long term debt restructuring options with secured creditors. Negotiations with secured creditors are anticipated to take several months.

On 22 March 2002, the Consolidated Entity, Glencore and representatives of the secured creditors reached an agreement on a US$10.0 million working capital facility for the Murrin Murrin Joint Venture. This facility will assist the Consolidated Entity in meeting project cash call requirements.

DIRECTORS' DECLARATION

In the opinion of the Directors of Anaconda Nickel Limited:

1. the financial statements and notes set out on pages 9 to 19, are in are in accordance with the Corporations Act 2001, including:

   a) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2001 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

   b) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2. for the reasons set out in Note 1 (a) to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 25th day of March 2002

Signed in accordance with a resolution of Directors.

James Campbell	**Peter Johnston**
Chairman	Chief Executive Officer

Independent review report to the members of Anaconda Nickel Ltd

Scope

We have reviewed the financial report of Anaconda Nickel Ltd for the half-year ended 31 December 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 9 and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of Company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Anaconda Nickel Ltd is not in accordance with:

a) the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2001 and of its performance for the half-year ended on that date; and
   ii. complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

B C FULLARTON
Partner
Perth
25 March 2002