



## KAZAKHMYNS PLC

6<sup>TH</sup> FLOOR  
CARDINAL PLACE  
100 VICTORIA STREET  
LONDON SW1E 5JL  
Tel: 0845 080 2369  
Tel: +44 (0) 20 0 7800

Company registered in England and Wales  
Company Number: 5180783

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### **Kazakhmys PLC proposes to acquire 18.8% stake in ENRC PLC**

- The independent directors of the Board have approved the exercise of Kazakhmys' option to acquire an 18.8 per cent. holding in ENRC. Completion is subject to the receipt of approval from the Government of Kazakhstan and the approval of the independent shareholders of Kazakhmys at an EGM
- The investment will give Kazakhmys exposure to chrome, iron ore, alumina, coal and additional power assets in Kazakhstan, delivering on the Company's stated strategy of leveraging its competitive position within Kazakhstan and the neighbouring countries to seek further growth opportunities in natural resources
- Estimated cost of exercising the option will be US\$810 million, pursuant to the terms of an option agreement
- The acquisition will be put to a vote of the independent shareholders of Kazakhmys in due course

Kazakhmys PLC ("Kazakhmys" or the "Company") today announces the proposed acquisition of a stake in Eurasian Natural Resources Corporation PLC ("ENRC"), subject to Governmental and independent shareholder approvals, from a vehicle wholly owned by the Chairman of Kazakhmys, Mr Vladimir Kim.

The ENRC Group is a large diversified mining and natural resources group with significant, high quality assets in Kazakhstan. The Independent Directors consider the investment key to Kazakhmys' long-term strategy of seeking to acquire interests in existing regional natural resources businesses with attractive internal and external growth prospects and its execution will bring significant benefits to Kazakhmys and its shareholders.

Commenting on the Acquisition, Oleg Novachuk, Chief Executive of Kazakhmys said "The proposed acquisition of the interest in ENRC is an integral part of our strategy to diversify Kazakhmys' portfolio by acquiring other resource assets in Kazakhstan and the Central Asian region."

James Rutland, Senior Independent Non-executive Director of Kazakhmys said, "The Independent Directors are unanimous in believing that this transaction will create value for shareholders and consider that it will be in the best interests of the shareholders as a whole to vote in favour of this transaction."

## **Background**

Kazakhmys notified the market on 14 March 2006 that it had been granted an option (the "Option") to acquire a 25% stake in ENRC Kazakhstan Holding B.V. ("EKH") by Mr Vladimir Kim. As stated in Kazakhmys' Annual Report and Accounts published on 5 April 2007, the 25% stake in EKH represented an 18.8% economic interest in ENRC, the holding company of the ENRC Group and its operating assets. Following receipt of Governmental approval, the final step of the restructuring will take place, so that by exercising the Option, Kazakhmys, through a wholly owned subsidiary, will become the direct owner of 3,756,725 shares in ENRC PLC, the holding company of the ENRC Group, representing 18.8% of ENRC's share capital.

In its announcement on 14 March 2006, Kazakhmys stated that the then independent members of the Board of Kazakhmys had considered the possibility of Kazakhmys itself acquiring the 25% stake in EKH but had decided that this would not be appropriate due to, among other things, the ongoing restructuring of the ENRC Group and the fact that EKH was not, in the opinion of Kazakhmys, in a position to provide the type of due diligence or warranty package which a listed company would expect.

The reorganisation of the ENRC Group is now substantially complete following a significant restructuring as part of its own efforts to simplify its group structure as ENRC management consider options for the strategic direction of the business, including a possible initial public offering. In addition, with the consent and co-operation of ENRC, a due diligence exercise has been undertaken in respect of the ENRC Group with, among other things, production and certain financial information in respect of ENRC having been made available to Kazakhmys and site visits to ENRC's operations in Kazakhstan have been undertaken by Kazakhmys' management and technical advisers, IMC Consulting Ltd. The Independent Directors believe that it is now in the best interests of the Shareholders as a whole that Kazakhmys acquire the ENRC stake currently held by a vehicle wholly owned by Mr Vladimir Kim.

The Board consider the Acquisition to be in the best interests of Kazakhmys and, having been so advised by JPMorgan Cazenove and Merrill Lynch, to be fair and reasonable so far as the shareholders of Kazakhmys as a whole are concerned. In providing advice to the Board, JPMorgan Cazenove and Merrill Lynch have taken into account the Directors' commercial assessments of the proposed acquisition. In addition, Kazakhmys has received legal advice from Linklaters LLP, advice on accounting for the Acquisition from Ernst & Young LLP, tax advice from PricewaterhouseCoopers LLP and technical mining advice from IMC Consulting Ltd.

Vladimir Kim, the Related Party, has not taken part in the Board's consideration of the Acquisition. In addition, none of Oleg Novachuk, David Munro or Vladimir Ni has taken part in the Board's consideration of the Acquisition as it was deemed appropriate that only the non-executive directors of Kazakhmys, who are independent in relation to the Acquisition, should consider the Acquisition.

## **ENRC**

ENRC is a privately owned natural resources company with fully integrated mining, processing, energy and transport operations in Kazakhstan. ENRC's operations, spread throughout Kazakhstan, are principally comprised of vertically integrated ferroalloy, iron ore and alumina businesses which employ over 60,000 people and generated estimated revenues of approximately US\$3 billion in 2006. ENRC benefits from high operating margins as its operations and growth profile are underpinned by relatively low costs of production at the company's major operations and it has access to a captive energy supply and in-house logistics and transportation operation.

ENRC's operations are comprised of:

- Kazchrome, whose principal activities include the extraction and sale of chrome ore as well as the production and supply of high quality ferroalloys to steel-makers worldwide. It is one of the top three ferrochrome producers in the CIS, based on volume of chrome (as of 2006) and is ranked in the lowest cost quartile amongst global ferrochrome producers. Kazchrome is 98.30 per cent. owned by ENRC;

- SSGPO, which is a significant CIS iron ore producer with sizable reserves estimated to be in the region of 1.5 billion tonnes which would ensure a mine life of approximately 40 years. It is a low cost producer which produces iron ore pellets and iron ore concentrates. SSGPO is 98.14 per cent. owned by ENRC;
- Aluminium of Kazakhstan, which is Kazakhstan's largest producer of alumina and a substantial producer globally. Aluminium of Kazakhstan also has its own bauxite reserve. Aluminium of Kazakhstan is 96.59 per cent. owned by ENRC;
- Kazakhstan Aluminium Smelter, which is scheduled to start production in late 2007 with an anticipated initial capacity of 60,000 tonnes of aluminium per annum expected to increase to 250,000 tonnes by 2011. The smelter will be 100 per cent. owned by ENRC;
- EEC, which operates an open pit coal mine and is Kazakhstan's largest electricity supplier, with a 2,155MW capacity, providing approximately 16 per cent. of the country's current installed capacity. EEC is 99.11 per cent. owned by ENRC; and
- Other divisions including ENRC Logistics (100 per cent. owned by ENRC, a transportation and logistics company); ENRC Marketing (100 per cent. owned by ENRC, the trading and marketing arm of ENRC) and Zhaireskiy GOK (99.83 per cent. owned by ENRC, a producer of manganese, ferromanganese and barite).

#### **Acquisition Price, Financing and Financial Effects of the Acquisition**

- The amount payable by Kazakhmys in respect of the Acquisition under the terms of the Option, which were disclosed in the announcement of 14 March 2006, will be approximately US\$810 million, assuming completion within the expected timeframe.
- The cost is based on the initial purchase price of US\$751 million paid by Mr Kim to acquire the 25% stake in EKH (the "Original Acquisition"), plus transaction and related costs, including a 10% margin of US\$75.1 million reflecting the risk that Mr Kim took in making this investment on his own account. Dividends and other capital distributions of approximately \$95 million received by Mr Kim in respect of his shareholding in EKH since the date of the Original Acquisition have been deducted.

The acquisition of the stake will be accounted for as an investment by Kazakhmys and it is intended to be funded from existing cash resources of Kazakhmys.

#### **EGM and Voting**

Following receipt of Governmental approval and the subsequent completion of the final step of the restructuring of the ENRC group in which it is anticipated that Kazakhmys' interest will be directly held in ENRC PLC, a circular will be distributed to shareholders and an Extraordinary General Meeting of the Company will be convened. Only independent shareholders of the Company shall be permitted to vote on the acquisition at the Extraordinary General Meeting.

A further announcement will be made in due course when the shareholder circular is dispatched to shareholders.

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**For further information please contact:**

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John Smelt, Head of Corporate  
Communication  
Sergei Stephantsov, Investor Relations  
Manager  
**Kazakhmys PLC**

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**Tel:+44 20 7901 7882**  
**Mob: +44 787 964 2675**

**Tel:+44 20 7901 7814**

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Robin Walker  
**Finsbury**

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**Tel:+44 20 7251 3801**

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**NOTES TO EDITORS**

**Kazakhmys PLC**

Kazakhmys PLC is the largest copper producer in Kazakhstan and one of the leading copper producers in the world. Kazakhmys is a fully integrated copper producer from mining ore through to the production of finished copper cathode and rod. The Group produces significant volumes of other metals as by-products, including zinc, silver and gold. Existing operations include 19 open pit and underground mines, 8 concentrators, two copper smelting and refining complexes, a copper rod plant, a zinc plant and a precious metals refinery. Production is backed by a captive power supply and significant rail infrastructure. Kazakhmys also owns MKM, a copper products fabrication company in Germany, and has Gold and Petroleum Divisions with assets in Kazakhstan and Central Asia. The Group's strategic aim is to diversify and participate in the development of the significant natural resource opportunities in Central Asia.