

Annual Report 2007

Kazakhmys PLC is an international natural resource group and one of the leading copper producers in the world. The Group produces significant volumes of other metals as by-products, including zinc, silver and gold. Kazakhmys is leading the development of natural resources in the region. In 2008 there will be five divisions: Copper, Gold, Petroleum, Power and MKM

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CORPORATE GOVERNANCE

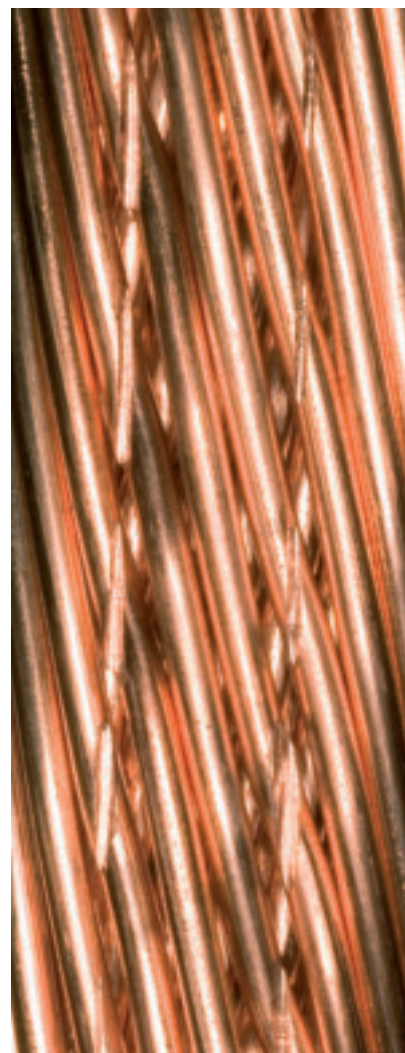
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Highlights

OPERATIONAL

- Production of 380 kt of copper cathode
- Continued strong demand from customers for all metals
- Key first steps taken in diversification. Acquisition of:
 - Eurasia Gold
 - Dostan-Temir petroleum exploration block
 - 14.6% stake in ENRC PLC
- Operational improvements in core assets:
 - Completed new concentrator and two upgrades
 - Completing new acid plant in Balkhash
 - Outsourced management of railway system

FINANCIAL

- Solid financial results driven by strong commodity prices
- Average realised copper price up 2% to \$7,175 per tonne
- EBITDA excluding special items up to \$2,336.3 million
- EPS based on Underlying Profit up to \$3.02 per share
- Strong Free Cash Flow of \$895.3 million
- Cash flow and strength of balance sheet allowed cash return to shareholders of over \$800 million:
 - Interim dividend of \$64 million, an increase of 7% (13.6 US cents per share)
 - Special dividend of \$235 million, or 50.0 US cents per share
 - Final dividend announced of \$126 million, an increase of 7% (27.4 US cents per share)
 - Share buy-back programme of \$390 million (completed in January 2008)

EBITDA EXCLUDING SPECIAL ITEMS \$ MILLION

2,336.3

2007	2,336.3
2006	2,308.4
2005	1,073.5
2004	791.4
2003	418.7

EARNINGS PER SHARE BASED ON UNDERLYING PROFIT \$ PER SHARE

3.02

2007	3.02
2006	3.00
2005	1.31
2004	0.93
2003	0.37

DIVIDENDS US CENTS PER SHARE

91.0

2007	41.0	50.0	91.0
2006			38.5
2005			36.0

■ Ordinary dividend ■ Special dividend

At a glance

Kazakhmys is leading the development of the natural resource sectors in Kazakhstan and Central Asia

OUR BUSINESSES

Kazakhmys is an international natural resource group and is one of the largest copper producers in the world.

KAZAKHMY'S COPPER

Our core business is the production and sale of copper. This division is fully integrated from mining ore through to the production of finished copper metal. It also produces significant volumes of other metals as by-products, including zinc, silver and gold. Measured resources as at 31 December 2007 were 702.4 kt of copper. There are two substantial growth projects in Kazakhstan, at Boscchekul and Aktogay, which will add production from 2012.

MKM

MKM is a wholly owned subsidiary, based in Germany. MKM produces a range of pre- and semi-finished copper and copper alloy products. MKM purchases its copper requirements from independent traders. It also has a worldwide sales team in place.

NEW DIVISIONS

In 2007 the Group has two new divisions, Kazakhmys Petroleum and Kazakhmys Gold and has announced the purchase of Ekibastuz, creating Kazakhmys Power. This is in keeping with the Group's strategic aim of diversifying and participating in the development of the significant natural resource opportunities in Central Asia.

Kazakhmys

380^{KT}

THE GROUP PRODUCED 380 KT OF COPPER CATHODE IN 2007

11TH

ELEVENTH LARGEST PRODUCER OF COPPER IN THE WORLD, ACCOUNTING FOR OVER 2% OF MINED COPPER

20^{YRS}

MINE LIFE OF EXISTING COPPER RESOURCES IS OVER 20 YEARS



KAZAKHMY'S PLC ANNUAL REPORT 2007





KAZAKHMY'S GOLD

Our gold division includes substantial new development and exploration opportunities, including Bozymchak (Kyrgyzstan), Mizek Sulphides (Kazakhstan) and Akjilga (Tajikistan). The equivalent measured and indicated resources are 2.3 Moz of gold.

KAZAKHMY'S POWER

In February 2008 we announced the proposed acquisition of the Ekibastuz coal fired power plant and the accompanying Maikuben West Coal mine in Kazakhstan. This is the largest source of power in Kazakhstan with a nameplate capacity of 4,000 MW.

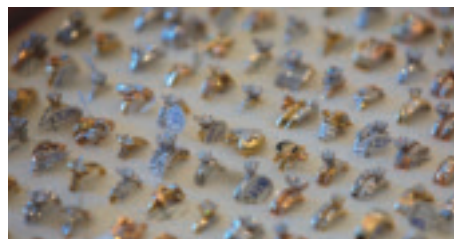
KAZAKHMY'S PETROLEUM

In April 2007 the Group acquired Dostan-Temir LLP. This exploration block, with an area of 602 km², is located to the south of Aktobe in western Kazakhstan. This region is home to numerous oil and gas operations on the eastern fringe of the Caspian depression. Drilling and 3D seismic surveys will be carried out in 2008.

MAP SHOWING KAZAKHMY'S EXTENSIVE OPERATIONS IN KAZAKHSTAN AND THE REGION

23%

23% OF KAZAKHMY'S COPPER REVENUE COMES FROM OTHER METALS, PRINCIPALLY ZINC, SILVER AND GOLD



KAZAKHMY'S PLC ANNUAL REPORT 2007

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IN 2008 THERE WILL BE FIVE DIVISIONS: COPPER, GOLD, PETROLEUM, POWER AND MKM



\$100^M

THE LARGEST SOCIAL SPENDING PROGRAMME IN KAZAKHSTAN. THE GROUP ALSO REPRESENTS AROUND 1% OF KAZAKH GDP



Chairman's Statement

In 2007 we made some important steps in the delivery of our strategy and this has continued in 2008

2007 was characterised by some important steps in the delivery of our strategy, but the year also posed some operational challenges. We added two new divisions to our business, gold and petroleum, and after the year end we announced the purchase of a substantial power business, an area in which we already operate. We also acquired a 14.6% stake in ENRC PLC, currently valued at \$4.2 billion.

Our strategy remains consistent with that set out at the time of Listing in October 2005: to create value by optimising our existing assets, completing our growth projects and taking advantage of natural resource opportunities in the region.

STRATEGY: ASSET OPTIMISATION

The optimisation of our existing assets will be through improved efficiency and targeted output expansion. A major focus of the Group will be to ensure that the issues which led to reduced production in 2007 are addressed over the course of 2008.



VLADIMIR KIM
CHAIRMAN

14.6%

INTEREST IN ENRC PLC PLUS
THREE FURTHER ACQUISITIONS

\$815^M

RETURN OF FUNDS TO
SHAREHOLDERS

The demand for commodities and the continued strength of global mining has created inflationary pressures in the mining industry, which have been felt in Kazakhstan. Management will be implementing initiatives to protect profit margins and maintain our competitive position as a lowest cost quartile copper producer.

STRATEGY: GROWTH PROJECTS

On our major growth projects, in July 2007 we engaged Fluor to act as consulting engineers for the pre-feasibility study at Boschekul. Fluor have now also been appointed to run the pre-feasibility study at Aktogay, for both the oxide and sulphide deposits. These projects remain on track and in line with the guidance given in our 2007 Interim Results.

STRATEGY: DIVERSIFICATION

In April 2007 we purchased an exploration petroleum block in western Kazakhstan and are now undertaking seismic and drilling work. In July 2007 we purchased Eurasia Gold Inc. which has now been fully integrated as Kazakhmys Gold. Kazakhmys Gold has some exciting development projects in Central Asia, which are progressing to schedule.

In October 2007, we became the owner of an 18.8% interest in ENRC PLC, for \$806 million, and after its successful listing in early December, we now own a 14.6% interest in this business. The stake is currently worth \$4.2 billion, a 421% capital return on our investment, representing £4.64 per Kazakhmys share. This underlines our ability to source exciting transactions in the region, creating value for our shareholders.

Since the year end, we announced the purchase of the Ekibastuz Power Plant and the Maikuben coal field which, on completion in the first half of 2008, will become our newly formed Kazakhmys Power Division. This is the largest privately owned power business in Kazakhstan and it has significant potential to increase current output through refurbishment. In a region with such strong economic growth, and likely rising power prices, the ownership of this business offers many commercial opportunities and advantages, such as partnerships and off take agreements. It also provides a hedge against rising power prices for our own future needs.

In considering these transactions and reviewing and setting the strategy of the Group, we have had the benefit of the advice and considerable experience of our Board. I should like to thank them for their input and commitment over the year. We place a strong emphasis on sound corporate governance and our Board is the key to ensuring that this commitment is fully observed.

DIVIDENDS AND RETURNS TO SHAREHOLDERS

Metals prices were generally firm over the year, leading to strong cash flows, particularly in the first six months. In September 2007, given the unusually high metals prices and the lower than anticipated spend on diversification up to June 2007, the Board recommended a return of funds to shareholders. This consisted of a \$390 million share buy-back programme and a special dividend payment of \$235 million, or 50.0 US cents per share. The buy-back commenced at the end of October 2007 and was completed within three months, well within the timetable we had outlined.

The Board is recommending an ordinary final dividend of 27.4 US cents per share which, combined with the ordinary interim dividend, represents a total payment over the year of 41.0 US cents per share.

This is an increase of 7% on last year's full dividend of 38.5 US cents per share. This reflects our confidence in our core business and our view that the outlook for commodity prices should remain favourable in the foreseeable future.

Kazakhmys listed on the London Stock Exchange in October 2005, at 540 pence per share, raising \$491 million. The total returned in cash to shareholders since Listing, from dividends and the share buy-back programme, amounts to \$1,163 million. The share price currently stands at £17.33 representing a total capital return since Listing of 221%.

In addition to our Listing in London, approximately 2% of our shares are traded on the Kazakh stock exchange. We are pleased to be part of the Kazakh exchange, the success of which is important to the development of businesses and the economy in Kazakhstan.

CUSTOMERS

Around 80% of our copper is sold under annual contracts with long standing customers, principally in Europe and China. Our business relies on these strong relationships and I should like to thank our customers for their continued support over the year.

CORPORATE RESPONSIBILITY

The success of our Group is principally due to the efforts of our employees and on behalf of the Board I should particularly like to thank them for their support over the past year. We are committed to the welfare of our workforce and those associated with the Group, including the local communities around our operations.

Stability and development in the communities around us is part of our duty to Kazakhstan and this will contribute to the success of the Group. In January 2008, we were privileged to host the first national conference on corporate social responsibility in Kazakhstan, chaired by the President of Kazakhstan, at our operational headquarters in Zhezkazgan. Hosting the event at Zhezkazgan reflected the lead that we have taken in social development within Kazakhstan, a role which it is important for us to maintain.

Health and safety remains a key issue for the Group. The number of fatalities fell from 32 in 2006 to 23 in 2007, maintaining a downward trend set over the past six years. Significant improvements have been made in several areas, such as roof falls. It will take some time to ensure that the culture and behaviour, throughout all our operations, is based on a principle of safety first, but we are creating this environment as we continue to target zero fatalities.

OUTLOOK

We have continued to see strong demand for our products. Events in financial markets have given rise to uncertainty over the strength of western economies, but while there may be periods of weakness, the underlying strength of demand from the newly industrialising parts of the world, such as our neighbour China, leads us to believe that the long term outlook for metal demand and resources remains positive. We are, therefore, confident about the prospects for the Group.

Chief Executive's Review

In 2008 we see further exciting opportunities, from our existing assets, our growth projects and diversification in the region

In 2007 total ore output in our core copper business was 34.0 MT, compared to 39.2 MT in 2006. The average copper grade of 1.22% was slightly higher than 2006, at 1.17%, though this was largely due to the reduced output from the Zhezkazgan Complex and the low grade Kounrad mine, which was closed for a scheduled push back in 2007. Copper cathode production from own ore was 341 kt, a decline of 7%, reflecting the reduction in ore output. In 2007, 39.0 kt of cathode was produced from purchased concentrate, compared to 36.8 kt in 2006.

Zinc metal in concentrate production was 132.8 kt, compared to 129.1 kt, mainly as a result of the increased output of zinc bearing ores, particularly from the Kosmurun mine. By-product gold production, excluding tolled material, increased to 113.4 koz, benefiting from increased grades and higher output from the Kosmurun mine. Silver production fell to 19.0 Moz from 21.5 Moz, principally as a result of the decline in production of silver bearing ores in the Zhezkazgan Complex and East Region.



OLEG NOVACHUK
CHIEF EXECUTIVE

\$5,257^M

REVENUE UP FROM \$5,047M
IN 2006

\$2,336^M

EBITDA, UP FROM \$2,308M
IN 2006

In September 2007 we reported a flood at South Mine, in the Zhezkazgan Complex. This prevented ore output from the mine for most of the fourth quarter, but the mine became fully operational, as anticipated, in December. The decline in ore output was also the result of a reduction in equipment availability across all regions. As previously mentioned, longer lead times have been experienced in several areas, due to the strength of the mining sector. Improvements were seen towards the year end in the deliveries of ordered equipment, in particular, larger items. Our own management of equipment and ordering is a key area of management focus to enable us to cope better with this environment.

Copper prices remained firm in 2007, with an average realised price of \$7,175 per tonne, an increase of 2% on 2006. The average price received for silver and gold in 2007, rose by 17% and 14%, respectively. Zinc prices increased by only 3% in 2007 compared to 2006, as China increased output. The change in commodity prices more than offset the decline in output, leading to an 8% increase in revenue in Kazakhmys Copper, to \$3.6 billion. Output was reduced at MKM, as the business successfully focused on higher margin products, so that Group revenue rose by 4% from \$5.0 billion in 2006 to \$5.3 billion in 2007.

EBITDA for the Group, excluding special items, was \$2,336 million, an increase of 1.2% from 2006. This represented a Group EBITDA margin of 44% with 62% for Kazakhmys Copper, reduced at Group level by the lower margin of MKM. For Kazakhmys Copper, EBITDA, excluding special items, saw a slight decline to \$2,233 million, from \$2,296 million in 2006, as rising commodity prices were offset by inflationary cost pressures, higher prices on purchased concentrate and the impact of fixed costs on reduced production levels. Earnings per share, based on Underlying Profit, rose slightly from \$3.00 per share in 2006 to \$3.02 per share in 2007. EPS benefited from a pre-listing dividend of \$93.9 million, received from the holding in ENRC, and a lower tax rate. These were partly offset by the impact of tenge strength against the US dollar, which created a foreign exchange loss for our liquid funds on deposit, held by our Kazakh subsidiaries in US dollars, though this has no impact on actual cash.

Cost of production in 2006, from our own material after by-product credits, was 9.0 US cents per pound. This was unusually low, due to the strong increase in by-product revenues, compared to inflation. In 2007 it returned to 32.9 US cents per pound, in line with the more standard levels seen in previous years. During 2007, cost inflation growth exceeded the rise in by-product credits, the former being influenced by several issues, including transportation, fuel, labour and administrative costs. Our costs remain in the lowest quartile of copper producers globally.

With high commodity prices and a low cost of production, Free Cash Flow remained strong at \$895 million over 2007. This was a decline on 2006, principally due to the timing of tax payments and an increase in sustaining capital expenditure targeted at upgrading our equipment.

A programme of efficiency measures is being carried out to offset inflationary pressures. This includes an increase in the number of concentrators, to reduce the cost of transporting of ore, and upgrades to the existing concentrators. In 2007 the construction of the Nurkazgan concentrator was completed and upgrades were carried out at the Nikolayevsky and Karagaily concentrators. During 2008 four other concentrators (Zhezkazgan, Orlovsky, Irtyshsky and Belousovsky) will commence planned upgrades, which will focus on improving current recovery rates and significantly increasing ore capacity in total. Further new concentrators are being planned, including Kosmurun-Akbastau. In 2007 the management and maintenance of our railway network was outsourced, though we retain ownership of the assets. Some long distance road haulage was also outsourced. We are already securing benefits in management efficiency and tariffs. There will be further investment in the transportation and logistics systems in 2008, in order to improve efficiency and control costs.

The Group has two major growth copper projects at Boschekul and Aktogay. In our Interim Results we announced the appointment of Fluor to act as consultants for the pre-feasibility study at Boschekul and they have now also been appointed at Aktogay. The timetable for Boschekul remains consistent with previous guidance. The pre-feasibility study is due to be finished at the end of 2008 and the feasibility study at the end of 2009. It is anticipated that first ore production will commence at the end of 2011, with most of the capex falling between 2009 and 2011.

At Aktogay there is a large sulphide and a smaller oxide deposit, both of which are currently in pre-feasibility stage. The oxide pre-feasibility study should complete first, during 2008, and the sulphide pre-feasibility in H1 2009.

Chief Executive's Review continued

Along with the major long term growth projects at Boschekul and Aktogay, there are a number of smaller near term projects being implemented in Zhezkazgan and Karaganda. These should keep core production stable and offset grade and tonnage declines in the more mature mines. In January 2008, shortly after the year end, mining commenced at the Abyz and Akbastau mines. The North Nurkazgan open pit mine in the Karaganda Region and the Taskura open pit mine in the Zhezkazgan Complex are scheduled to commence production in 2008. Further similar projects are scheduled for the next three years.

Capital expenditure in 2007 was \$493.0 million, excluding the cost of acquiring East Akzhar petroleum exploration block. Capital expenditure for Kazakhmys Copper in 2008 is likely to be slightly higher, with further infrastructure spend, and additional spending of \$90 million on the Petroleum and Gold development programmes. Significant spending on our large growth projects, at Boschekul and Aktogay, is unlikely to commence until 2009.

At the time of Listing in October 2005 one of our main strategic aims was to diversify our asset base and to take advantage of the many resource opportunities available in the Central Asia region. Since the beginning of 2007 we have started to see significant delivery of our diversification programme.

In April 2007 we purchased the 602 km² oil and gas exploration block at East Akzhar, in western Kazakhstan. Drilling has commenced on the shallow section and will continue throughout the first half of 2008. The main part of the exploration activity is in the deeper section, where 3D seismic activity will start in 2008 and continue throughout the year.

In July 2007 we purchased Eurasia Gold Inc., then a Canadian listed precious metals company. Now renamed Kazakhmys Gold, the annual production for 12 months in 2007 was 52 koz, of which 33 koz is attributable to Kazakhmys. This was slightly ahead of management expectations, both at the start of the year and at the time of acquisition.

Kazakhmys Gold has three major development projects, the Bozymchak deposit of gold, copper and silver in Kyrgyzstan, the Mizek sulphide gold and copper deposit in Kazakhstan and the Akjilga silver and copper exploration deposit in Tajikistan. Worley Parsons have been appointed to complete the pre-feasibility studies at both Bozymchak and Mizek, which should be finished during 2008. An external review of the reserve base has been carried out, as a result of which the declared measured and indicated gold equivalent resources on a JORC basis have increased from 1.9 Moz at the time of acquisition, to 2.3 Moz. Drilling is continuing at Bozymchak and Mizek, as both assets move towards feasibility study, and this may lead to further increases in the resource base.

In October 2007 shareholders approved the exercise of our option to purchase an 18.8% holding in ENRC PLC, for a purchase price of \$806 million. ENRC subsequently listed on the London Stock Exchange and with the issue of new equity, our interest is now 14.6%. This has clearly been a very successful investment, but the Board will continue to monitor the holding to ensure that the capital provides a good return for our shareholders.

Growth projects in all of our divisions

Since the period end, we have announced the acquisition of the Ekibastuz power plant and the accompanying coal mine at Maikuben, for a total consideration of up to \$1.5 billion. The project offers significant potential to increase output and to develop commercial relationships through surplus power generation. As announced, the project will require a capital investment of around \$650 million, which is likely to be spread over the years 2008 to 2012.

Extensive work was done by the Soviet State institutes on defining mineral resources in Kazakhstan. Technology has developed over the past 20 years and we believe that there is scope to re-evaluate some of this data with new exploration tools. This will be reviewed over the course of the year to see whether it can provide additional opportunities. There will be nominal spend at this stage.

Progress was made on health and safety in 2007, but there is much more still to do. The total number of fatalities in 2007 was 23, a significant reduction from 32 in 2006. I regret to announce that there have been six fatalities in the first two months of 2008, which are currently being investigated. As mentioned at the time of our Interim Results, we saw a significant improvement in fatalities from roof falls, where the fatality rate decreased from 14 in 2006 to four in 2007. This was a result of changing methods of inspecting and securing the roof. A second major source of fatalities has been from electrical equipment. A visit was made to mines in South Africa in 2007, following which revised working practices have been successfully introduced.

We are currently completing a new in-house training school which is principally to develop operational skills, but will also feature and benefit health and safety procedures.

There will undoubtedly be challenges in 2008, though we anticipate that copper cathode production should be at least the level of 2007. As mentioned in the Chairman's Statement we believe that there are further exciting opportunities to deliver on our strategy in the coming year, from our existing assets, our growth projects and diversification in the region.

Strategy

Our Company

See from inside front cover to page 3 and pages 125 to 143

Our Markets

See pages 18 and 19

Our strategic objectives

- Optimise performance of existing assets
- Delivery of growth and expansion projects
- Acquisition of natural resource assets in our region

Delivering on strategy

See pages 12 and 13

Managing Group risk

See pages 14 and 15

Measuring performance

See pages 16 and 17

OPERATING ENVIRONMENT

Kazakhstan and its neighbouring states have significant potential for the development of natural resources. The area is comparable with Southern Africa, Australia or Brazil in terms of the diversity and quality of its mineral wealth. The stable political and economic climate of Kazakhstan make it an ideal base in the region, with a well-educated and motivated workforce and a rapidly developing legal and business framework. The region is also well placed logistically to serve two of the world's most important resource markets, China and Europe, giving flexibility to changes in supply/demand and cost factors in these end markets.

GROUP STRENGTHS

The strong position that the Group already has in copper in Kazakhstan is supported by a powerful balance sheet, outstanding local business contacts and good relationships with national authorities. The Group's reputation facilitates access to new projects and encourages the recruitment and retention of high calibre people.

The Group's primary focus will be on growing through acquisition and major projects and on organic growth through optimising the performance of existing assets, all within the context of continuous improvement in the protection and safety of its staff and others affected by its operations.

STRATEGIC OBJECTIVES

The Group's strategy can be broken down into three main elements:

OPTIMISATION OF EXISTING ASSETS

- The Group is developing management tools to improve the performance of existing assets, but also create opportunities to add value to acquisitions. Particular objectives will be controlling costs, improving yields and increasing productivity.

GROWTH AND EXPANSION

- The Group will pursue output growth by actively investing in small scale expansion and new projects. This includes mine developments, new concentrators and concentrator upgrades.
- The Group will bring into operation, over a number of years, the major growth projects in its portfolio. These projects will partly serve to replace existing production from mines where ore reserves are depleting, and partly to increase our copper output.

DIVERSIFICATION AND ACQUISITIONS

- The Group will actively seek out and acquire attractive, undeveloped natural resource assets in the region. This will be achieved partly through an in-house exploration programme, partly through exploration partnerships with other companies, and partly by seeking to acquire discovered but undeveloped deposits from existing owners.
- The Group will seek to acquire interests in existing regional natural resource businesses with attractive internal and external growth potential.

The Board will continue to formally review its strategy during 2008, to keep pace with the changes in the region and the markets the Group serves. This will include updating the Group's objectives and the ranking of the targets it wishes to pursue.

Our strategy

Optimising existing assets

In an environment of cost inflation the optimisation of existing assets is a key priority:

- In 2007 a new concentrator and two concentrator upgrades were completed
 - In 2008 upgrades to four concentrators and construction of new concentrators will be progressed
- In 2008 the new acid plant at Balkhash will be commissioned
- In 2007 management of the railway system was outsourced
 - 2008 will see further significant investment in transportation and logistics

Delivery of growth and expansion projects

A series of smaller growth projects will help to maintain near term output at current levels:

- Seven copper mine extensions and developments are due to be launched over the next three years

There are also several substantial projects in all our divisions:

- Two major copper projects at Boschekul and Aktogay, currently at the pre-feasibility stage, will add significantly to copper production from 2012
- Three major precious metal projects at Bozymbchak, Mizek sulphides and Akjilga within our Kazakhmys Gold division
- Petroleum exploration block at East Akzhar in western Kazakhstan

Our strategic

Acquisition of natural resource assets

From the start of 2007 we have diversified our business with acquisitions amounting to over \$3 billion:

- East Akzhar petroleum exploration block for \$450 million in April 2007
- Eurasia Gold Inc. for \$270 million in July 2007
- ENRC PLC, a 14.6% holding for \$806 million in October 2007
- Ekibastuz Power Plant and Maikuben West coal mine, for up to \$1.5 billion, announced in February 2008

The Group believes that the region continues to offer significant opportunities in a wide range of resources at different stages of development from exploration through to fully producing assets

delivery

Risk Factors

MANAGING GROUP RISK

Kazakhmys' has significantly improved its risk framework over the past few years, with good progress being made in better understanding and managing the Group's significant risks.

Kazakhmys has a risk management system in place to support the identification and management of the Group's significant risks. The Group's approach to internal control is business risk driven, with emphasis on both business and financial risks as explained in the Corporate Governance Report on pages 54 to 57.

The following represent the significant risks identified by the Directors that could materially affect the Group's financial condition, performance, strategies and prospects.

HEALTH, SAFETY AND THE ENVIRONMENT

The nature of the Group's operations means that there is always the potential for accidents in the workplace and the possibility of excessive pollution of water, air or soil.

The Group Health, Safety and Environment Committee continues to drive a number of initiatives to reduce the number of fatalities and serious accidents occurring and to further advance the standards of environmental safety and protection. A number of these initiatives are set out in the Corporate Responsibility Report on pages 42 to 47.

BUSINESS INTERRUPTION

The business of mining and metals processing involves a number of risks and hazards, including geological and technological challenges, fire, flood, adverse weather conditions, equipment failure and loss of key inputs such as electrical power, which can cause disruption to operations. Most of the Group's

revenues are derived from copper produced at the concentrating, smelting and refining facilities at the Zhezkazgan and Balkhash Complexes. If operations at these facilities were materially reduced, interrupted or curtailed, the Group's financial condition could be materially affected.

Work is being carried out across the Group, with the support of appropriate in-house and third party specialists, to address operational risk issues. A combined property damage and business interruption catastrophic insurance programme is in place to mitigate the effect of a catastrophe at the Group's main concentrating, smelting and refining facilities, and power stations.

COMMODITY PRICES

The Group is exposed to the risks of fluctuations in copper, zinc, gold, silver and other commodity prices. Its revenues would be significantly affected by a material collapse in copper prices.

The Directors do not consider it to be in the interests of the shareholders to reduce the Group's exposure to commodity price fluctuations. The only commodity hedging carried out is that performed by MKM in order to mitigate the risk of an increase in the purchased cost of copper cathode, where natural hedging is not available. The business' sensitivity to fluctuations in commodity prices is kept under regular review, and a sensitivity analysis is set out on page 19.

POLITICAL RISK

Political instability or social unrest may lead to a change in Government policy or have a material adverse effect on the Group's operations.

Most of the Group's operations are in Kazakhstan. Kazakhstan's Government has actively pursued a

Managing Group risk

programme of economic reform, helping to make it the most politically stable and economically developed country in Central Asia. While a number of former Soviet republics have experienced periods of political instability, this has not been the case for Kazakhstan. The Directors continue to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remain enthusiastic about the conditions for business in the region.

MARKET CONDITIONS

Expectations of value in the natural resources sector have been elevated by a long period of above average commodity prices. The Central Asian mining sector is experiencing unprecedented levels of activity. Under these market conditions, the Group faces greater challenges as it seeks to identify suitable acquisition targets, to obtain the necessary high quality capital equipment and external support services, and to recruit and retain top quality people, at prices which represent real value to shareholders.

The Directors believe that the Group's historically strong presence, reputation and knowledge of resources in the region, combined with the progress made in enhancing its systems, tools and talent, place it in a unique position to thrive in this challenging environment.

PROJECT MANAGEMENT

As new projects are identified, developed and brought into production, many risks are engaged that may detrimentally affect the Group's profitability. For example, insufficient or inadequate geological surveying may result in actual reserves and the volume and grade of ore finally recovered falling below expectations. In addition, the

economic viability of projects is also dependent upon substantial expenditure that must be carefully managed.

The Group ensures that sufficient expertise, both in-house and supplied by third party specialists, is brought to bear on projects throughout their life cycle. Furthermore, there are procedures in place addressing areas such as the budgeting and management of capital expenditure projects, in order to ensure more disciplined project management.

SUBSOIL USE RIGHTS

Non-compliance with mining legislation and subsoil use contracts may lead to regulatory challenges and subsequently the loss of access to resources.

In Kazakhstan, all subsoil reserves belong to the State. Subsoil use rights that are granted to the Group may be conceivably suspended or terminated if it does not satisfy its licensing or contractual obligations, which include periodic payment of royalties to the Government and the satisfaction of mining, environmental, health and safety requirements. The Group's management make every effort to ensure compliance with all mining legislation and subsoil use contracts.

TAXATION

The interpretation and application of tax legislation and regulations in Kazakhstan are evolving, which increases the risk of increased tax liabilities or penalties with respect to the Group's operations and investments in Kazakhstan.

The Group makes every effort to comply with tax legislation, and works closely with the tax authorities to ensure compliance.

Key Performance Indicators

The Board uses a range of financial performance indicators, reported on a periodic basis, to measure the Group's performance over time. These include:

TO MEASURE GROWTH OF THE GROUP RETURN ON CAPITAL EMPLOYED (ROCE)

Return on Capital Employed: defined as profit before taxation, finance items and negative goodwill over capital employed (borrowings and total equity, including minority interests). ROCE measures how efficiently the Group's capital is being utilised. Our objective is to ensure ROCE is consistently above the Group's weighted average cost of capital.

FREE CASH FLOW

Free Cash Flow: defined as net cash flows from operating activities less sustaining capital expenditure on tangible and intangible assets. Free Cash Flow quantifies the Group's cash flows which can be used to fund returns to shareholders and invest in the future growth and development of the business.

TO MEASURE PERFORMANCE OF THE GROUP EBITDA EXCLUDING SPECIAL ITEMS

EBITDA excluding special items: defined as profit before interest, taxation, depreciation and amortisation, as adjusted for special items. Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the Group. EBITDA excluding special items is a measure of the cash profits of the business and we strive to achieve high margins by taking advantage of our low cost base through vertically integrated operations.

EPS BASED ON UNDERLYING PROFIT

EPS based on Underlying Profit: defined as EPS before special items, and their resulting tax and minority interest impacts. EPS tells us how much attributable profit per share is available for distribution to shareholders through dividends. Our dividend policy will take into account the profitability and underlying growth in earnings of the Group, whilst maintaining a prudent level of dividend cover.

CASH COST OF COPPER (AFTER BY-PRODUCT CREDITS)

Cash cost of copper (after by-product credits): defined as the total of operating costs as presented in the income statement less by-product revenues, over the volume of copper cathodes and rods sold. The cash cost of copper measures the performance of the Group in maintaining its low cost base whilst maximising revenues through the sale of by-products.

Measuring the performance of the Group

RETURN ON CAPITAL EMPLOYED

%

30.9

2007	30.9
2006	49.7
2005	31.5
2004	30.2
2003	16.8

EBITDA EXCLUDING SPECIAL ITEMS

\$ MILLION

2,336.3

2007	2,336.3
2006	2,308.4
2005	1,073.5
2004	791.4
2003	418.7

FREE CASH FLOW

\$ MILLION

895.3

2007	895.3
2006	1,327.2
2005	450.2
2004	405.4
2003	15.1

EPS BASED ON UNDERLYING PROFIT

\$ PER SHARE

3.02

2007	3.02
2006	3.00
2005	1.31
2004	0.93
2003	0.37

CASH COST OF COPPER AFTER BY-PRODUCT CREDITS

USc/lb

58.9

2007	58.9
2006	31.5
2005	42.7
2004	28.0
2003	25.0

Market Overview

COPPER

The copper market during 2007 continued to show similar strength to that experienced in 2006 with the average LME price remaining significantly above long-term historic prices. The year on year average copper price rose 6% from \$6,731 per tonne to \$7,126 per tonne.

At the start of 2007, copper traded below \$6,000 per tonne, partly as a result of negative US employment and housing data, and also as buyers reduced inventories. Copper prices rebounded at the end of the first quarter on the back of continued strong Chinese demand, tightness of supply, large inflows of investment fund capital into base metals, and a weakening US dollar.

The copper price fell towards the end of 2007 as factors such as the US sub prime mortgage lending intensified concerns about the health of the world economy. This factor, amongst others, is expected to cause continued volatility in copper prices during 2008 as low inventory levels and continued uncertainty over the US and global economic outlook persist into the new year. Medium-term pricing of copper is largely dependent on whether demand growth from China and Asia is sufficient to offset declines in Western European and US markets and the extent to which supply increases in response to recent price strength.

The global consumption of refined copper is estimated to have increased by 3.4% in 2007 to 18.1 MT with production estimated to have grown 5.2% to 18.2 MT. China remains the world's main growth driver with 2007 refined copper consumption estimated at 4.6 MT. This compared to estimated Chinese internal production of 3.5 MT resulting in an import requirement of 1.1 MT. In 2008, Chinese consumption is expected to increase to 4.9 MT, but expectations of greater internal production may see import requirements reduce to 0.8 MT.

In Western Europe, Kazakhmys' other main market, total refined copper production was estimated to be 1.8 MT and consumption 3.7 MT resulting in an import requirement of 1.9 MT. In 2008, the consumption level and import requirements in Western Europe are forecast to remain broadly unchanged.

ZINC

Average zinc prices fell by 1% to \$3,250 per tonne during 2007 mainly due to China's expansion of zinc production capacity in response to the high zinc prices seen in 2006. This meant China, the world's largest zinc producer, shifted from a net importer to become a net exporter in 2007.

There was a reduction in Chinese exports during March 2007, helping zinc prices recover from the downward pressure at the start of 2007. Prices however continued to trend down later in the year due to weaker market conditions.

GOLD AND SILVER

Gold prices were strong in 2007, with average gold prices increasing by 15% to \$696 per troy ounce with gold's safe haven status returning during the year as the credit issues intensified in July. The interest rate cut by the US Federal Reserve, market volatility, and the decline of the US dollar pushed the gold price to record levels later in the year.

Silver prices were also strong in 2007 with average silver prices increasing by 17% to \$13.4 per troy ounce. In 2008, the supply of silver is expected to expand faster than demand which may create a source of downward pressure on prices.

SALES CONTRACTS

In 2007, Kazakhmys utilised its proximity to China and good infrastructure links to Europe to sell copper into both markets.

The majority of sales are made under annual contracts on a fixed premium to the prevailing LME price. Volumes above this level are sold on the spot market. This pattern will continue in 2008 with annual contracts already signed with a combination of Chinese and European customers.

\$7,175

PER TONNE AVERAGE REALISED
COPPER PRICE, UP 2% ON 2006

Our markets

Kazakhmys has utilised its proximity to China and good infrastructure links to Western Europe to sell copper into both markets

The by-products produced by Kazakhmys Copper are principally sold under annual contracts with the remainder sold on the spot market. Kazakhmys Gold sold all of its production in 2007 as gold cathode sediment for processing into gold bullion under an annual contract to Europe. This arrangement is not expected to change in 2008.

SENSITIVITY ANALYSIS ON PRICES AND GRADES

Fluctuations in commodity prices and ore grade can have a significant impact on Kazakhmys Copper's revenues and earnings. Any changes in commodity prices have a direct effect on the revenues of the Kazakhmys Copper business, with consequential impacts on earnings and the cash cost of copper resulting from changes in by-product credits.

Changes in ore grades have a direct effect on the production figures of the Kazakhmys Copper business. Revenues and earnings are directly impacted by production volumes, as is the cash cost of copper since the majority of costs are fixed in nature.

The approximate effects on profit before taxation, finance items and negative goodwill resulting from a 10% movement in commodity prices are shown in the adjacent table. Prior year commodity prices and ore grades are also provided to demonstrate the fluctuations in these variables. These sensitivities are based on 2007 figures and assume that all other variables remain constant. They are estimated calculations only.

KAZAKHMYS COPPER COMMODITY PRICE SENSITIVITY

	Average realised price during year ended 31 December 2007	2006	% movement	Impact of 10% movement on profit ¹ \$ million
Copper	7,175	7,025	2	243
Zinc	3,237	3,145	3	32
Silver	13.27	11.41	16	21
Gold	695	610	14	6

¹ Profit before taxation, finance items and negative goodwill.

KAZAKHMYS COPPER ORE GRADE MOVEMENT

	Average ore grade during year ended 31 December 2007	2006
Copper (%)	1.22	1.17
Zinc (%)	3.87	4.28
Silver (g/t)	20.52	20.69
Gold (g/t)	0.90	0.77

1.22%

AVERAGE COPPER GRADE, UP FROM 1.17% IN 2006

Operating Review

SUMMARY OF RESULTS

Strong commodity prices during 2007, which remained significantly above their long term historical averages, have resulted in increased revenues and EBITDA excluding special items of 4.2% and 1.2% respectively, to \$5,256.6 million and \$2,336.3 million. Sales volumes of copper cathodes and copper rods were up 4.6% (excluding tolling sales) despite production of copper cathodes falling 6.2% to 380 kt in 2007. Despite adverse cost pressures existing in the mining sector in Kazakhstan, the Group has seen solid stability in earnings in 2007.

2007 has seen the Group delivering on its strategy of growth through diversification as evidenced by the acquisitions of the oil and gas exploration licence in Kazakhmys Petroleum for \$450.0 million, Kazakhmys Gold for \$270.9 million, as well as acquiring a 14.6% interest in ENRC for \$806.3 million. At 31 December 2007, the Group's investment in ENRC had a market value of over \$2.4 billion. After taking dividends received of \$93.9 million from ENRC into account, this amounts to an unrealised return of over 200% on the original

investment. Since the year end, the fair value of the investment has grown to well over \$3 billion. The Group also undertook a share buy-back programme of \$390 million, completed in January 2008, and paid a special dividend of \$235 million in addition to the 2006 final and 2007 interim dividends of \$184.1 million.

The strong earnings have given rise to a healthy Free Cash Flow of \$895.3 million for 2007, and together with the expansion of the Group in 2007 and the continued strong commodity prices expected during 2008, leaves the Group well placed to pursue future organic growth and further acquisition opportunities.

Capital employed increased in the year to \$6,630.7 million from \$4,169.1 million in 2006, a 59.0% increase, primarily due to the acquisition of the 14.6% interest in ENRC which increased capital employed by \$1,594.7 million, and strong profitability of the Group which contributed a further \$1,415.7 million. Given the significant increase in capital employed during the year, ROCE decreased from 49.7% to 30.9%.

SUMMARY INCOME STATEMENT

\$ million	2007	2006	% change
Revenues	5,256.6	5,046.5	4.2
Operating costs excluding depreciation, depletion, amortisation and special items	(2,920.3)	(2,738.1)	
EBITDA excluding special items	2,336.3	2,308.4	1.2
Special items:			
Less: write off of property, plant and equipment	(26.2)	(1.4)	
Add/(less): gain/(loss) on disposal of property, plant and equipment	1.8	(9.6)	
Less: depreciation, depletion and amortisation	(263.5)	(225.8)	
Profit before taxation, finance items and negative goodwill	2,048.4	2,071.6	(1.1)
Net finance (cost)/income	(22.5)	89.7	
Recognition of negative goodwill	–	6.5	
Profit before tax	2,025.9	2,167.8	(6.5)
Income tax	(599.2)	(754.7)	
Profit for the period	1,426.7	1,413.1	1.0
Minority interests	(11.0)	(13.4)	
Profit attributable to equity shareholders of the Company	1,415.7	1,399.7	1.1
EPS – basic and diluted	\$3.04	\$2.99	1.7
EPS based on Underlying Profit	\$3.02	\$3.00	0.7

Strong commodity prices seen throughout the year have resulted in increased revenues and EBITDA

REVIEW OF KAZAKHMY'S COPPER KAZAKHMY'S COPPER PRODUCTION SUMMARY

kt (unless otherwise stated)	2007	2006
Ore extraction	33,967	39,240
Average copper grade (%)	1.22	1.17
Average zinc grade ¹ (%)	3.87	4.28
Copper concentrate	1,445.7	1,596.2
Copper in concentrate	389.9	433.5
own concentrate	347.9	383.2
purchased concentrate	42.0	50.3
Copper cathodes ²	381.2	407.0
own concentrate	340.9	368.4
purchased concentrate	39.0	36.8
tolling concentrate	1.3	1.8
Copper rod	35.7	28.5

¹ Complex ores only.

² Includes copper used to produce copper rod.

In 2007, overall cathode output was 26 kt lower than in 2006 as ore volumes fell, particularly in the Zhezkazgan Complex. Kazakhmys Copper experienced delays in obtaining new equipment and spare parts which affected a number of mining operations, principally the result of pressure on suppliers from the buoyant mining sector. Kounrad, a large but low grade mine in the Balkhash Complex produced limited quantities of ore in 2007. A major waste removal project to expose additional reserves will continue at the mine throughout 2008.

The Nurkazgan concentrator was constructed in 2007 with a production ramp-up due to occur during 2008. Whilst the concentrator was being constructed, some output from the West Nurkazgan open pit mine was stockpiled. At the year end, this stockpile totalled over 1 MT of ore. The Nikolayevsky concentrator in the East Region has been successfully upgraded during the year, with the aim of increasing recovery rates from polymetallic ores.

The Zhezkazgan and Balkhash smelters both underwent several weeks of maintenance and repair work in 2007. These smelters are old and will continue to require maintenance in the future, which will result in temporary disruption to cathode output from time to time. Surplus capacity exists and this disruption is unlikely to impact annual production volumes.

Progress has been made in developing a number of new mines and mine extensions. The North Nurkazgan open pit mine in the Karaganda Region will start output in 2008 after stripping of the initial overburden is completed. The existing West Nurkazgan deposit will switch to underground production. Overburden stripping was carried out on the deposit at Akbastau, close to the existing Kosmurun mine, with ore mining having commenced in 2008. The Abyz mine, closed for overburden removal throughout 2007, has reopened. The Zhezkazgan Complex has been an area of focus as the production capacity of the existing underground mines continue to slowly decline. The Taskura open pit mine extension is planned to commence output in 2008.

KAZAKHMY'S COPPER REVIEW BY REGION ZHEZKAZGAN COMPLEX

kt (unless otherwise stated)	2007	2006
Ore extraction	24,355	27,676
Average copper grade (%)	0.82	0.82
Copper concentrate	491.1	541.1
Copper in concentrate	178.6	199.3
Copper cathodes ¹	187.5	221.8
of which tolling	–	0.7
Copper rod	35.7	28.5

¹ Includes copper used to produce copper rod.

The Zhezkazgan Complex ore output was 12% lower than in 2006, at 24.4 MT, as production at the mature Zhezkazgan mines fell.

Annensky mine produced 3.4 MT in spite of the major collapse there late in 2006, down from 4.2 MT in the prior year. The North and South mines both experienced shortages of equipment thereby reducing output. The South mine also suffered flooding in September with management successfully recovering operations in December. The South mine's output fell from 6.8 MT in 2006 to 5.2 MT in 2007. Across the Complex, mining operations were impacted by equipment downtime caused by delays in equipment delivery and shortages of spare parts required for repairs.

The newest of the Zhezkazgan mines, Zhomart, which commenced output in April 2006, recorded ore extraction volumes of 2.9 MT, up from 2.2 MT in 2006 as it completed its first full year of production.

The Complex's average copper grades in 2007 remained at the 2006 level of 0.82%. The increased contribution of the Zhomart mine, which has an above average grade, offset slightly lower grades at the Complex's older mines.

The Zhezkazgan Complex's reduction in ore volumes and unchanged copper grade resulted in a decrease in copper in concentrate output from 199.3 kt in 2006 to 178.6 kt in 2007. This impacted production from the Zhezkazgan smelter which had cathode output of 187.5 kt, 15% lower than in 2006. The Zhezkazgan smelter underwent a number of repairs during 2007 and further maintenance will be required in 2008.

The copper rod facility operated at close to capacity at 36 kt as market demand was strong.

THE STRONG MINING SECTOR
HAS PLACED PRESSURE ON
SUPPLIERS, INCREASING LEAD
TIMES FOR PARTS AND
EQUIPMENT

33,967^{KT}

ORE EXTRACTED, DOWN 13%
ON 2006 DUE TO EQUIPMENT
SHORTAGES AND PLANNED
MINE DEVELOPMENT WORKS

Operating Review continued

BALKHASH COMPLEX

kt (unless otherwise stated)	2007	2006
Ore extraction	2,126	4,371
Average copper grade (%)	1.05	0.81
Copper concentrate ¹	187.9	257.1
Copper in concentrate	32.5	43.4
Copper cathodes of which tolling	193.6 1.3	185.2 1.1

¹ Excludes concentrate processed by third parties.

Ore production at the Balkhash Complex decreased by more than 2 MT mainly due to the scheduled push back at the Kounrad mine, which began at the start of 2007 and is expected to continue throughout 2008. The Kounrad mine produced 2.3 MT of ore in 2006 and only 0.4 MT in 2007. The Shatyrkul and Sayak mines both reported lower production in 2007 compared to 2006 due to underground development work running behind schedule as a result of delays in obtaining the required equipment.

The Complex's ore grade increased from 0.81% to 1.05% due to the reduced output at the Kounrad mine, which has the lowest grade in the Complex.

Concentrate output fell in the Balkhash Complex primarily because of lower ore output and the stockpiling of ore at the Nurkazgan mine in preparation for the commissioning of the Nurkazgan concentrator.

The Balkhash smelter, which processes concentrate from the East and Karaganda Regions, produced 193.6 kt of copper cathodes including tolling arrangements, 8.4 kt higher than in 2006. During 2007, the Balkhash smelter underwent a number of repairs. In 2008, further maintenance will be required which may lead to temporary disruptions to production.

EAST REGION

kt (unless otherwise stated)	2007	2006
Ore extraction	4,140	4,441
Average copper grade (%)	2.85	2.83
Copper concentrate ¹	506.2	534.5
Copper in concentrate	95.9	98.7

¹ Excludes concentrate processed by third parties.

Ore extraction in the East Region in 2007 was only 7% down on 2006 despite shortages of mining and ore transportation equipment. The Orlovsky mine suffered a fall in ore output from 1.5 MT of ore to 1.2 MT. The average copper grade achieved in 2007 was 2.85%, in line with that in 2006.

Copper in concentrate output was 3% below the 98.7 kt produced in 2006 as a result of the Region's lower ore production.

The Nikolayevsky concentrator underwent a major planned upgrade in 2007 during which the flotation section was replaced. This has improved the recovery rates from complex polymetallic ore.

KARAGANDA REGION

kt (unless otherwise stated)	2007	2006
Ore extraction	3,346	2,752
Average copper grade (%)	2.21	2.59
Copper concentrate	231.6	230.8
Copper in concentrate	33.3	33.7

Ore extraction volumes in the Karaganda Region grew by 22% to 3.3 MT as production from the Kosmurun mine rose from 0.9 MT in 2006 to 1.5 MT in 2007. This was partially offset by the closure of the Abyz mine throughout 2007 for overburden removal. The Abyz mine re-opened in early 2008.

Overburden stripping at the new Akbastau mine and the North Nurkazgan open pit extension made good progress during 2007 and production is expected to commence in 2008.

The decrease in the Region's average copper grade to 2.21% was due to a fall in grade in some areas of the Kosmurun mine as higher volumes of polymetallic copper/zinc ore were mined. At present, copper/zinc ore is processed at third parties to maximise the combined metal recovery.

381^{KT}

OVERALL CATHODE PRODUCTION, DOWN 6% ON 2006 DUE TO REDUCED ORE EXTRACTION

KAZAKHMYNS COPPER – ZINC PRODUCTION

kt (unless otherwise stated)	2007	2006
Average zinc grade (%)	3.87	4.28
Zinc in concentrate	132.8	129.1
Zinc metal	45.2	59.5

Production of zinc in concentrate increased by 3% due to greater polymetallic ore production at the Kosmurun mine, however the ore has a lower than average zinc grade at 2.77%, reducing the overall zinc grade from 4.28% to 3.87%.

Summer production at the Balkhash zinc metal smelter continues to be affected by its cooling capacity which resulted in the production of zinc metal being limited to 45 kt in 2007. As demand for zinc concentrate has remained strong, a greater volume of zinc concentrate was sold in preference to metal. A technical review is underway on the zinc smelter which is expected to report in the second half of 2008.

KAZAKHMYNS COPPER – PRECIOUS METALS PRODUCTION

koz (unless otherwise stated)	2007	2006
Average silver grade (g/t)	20.52	20.69
Silver	18,995	21,570
own production	18,985	21,530
tolling	10	40
Average gold grade (g/t)	0.90	0.77
Gold	137.0	165.5
own production	113.4	106.9
tolling	23.6	58.6

The Group's precious metals refinery, located in the Balkhash Complex, recovers gold and silver from the slimes produced during the electro refining of copper and carries out toll processing of precious metal concentrates for third parties.

Silver production from own ores reduced by 12% to 19 Moz. The lower silver production is due to the decline in output at the Zhezkazgan and East Region mines, with the silver grade largely unchanged on prior year at 20.52 g/t, down from 20.69 g/t in 2006.

Own gold production as a by-product of the copper business increased by 6% in 2007 supported by an increase in production of gold bearing Kosmurun ore. This was sufficient to offset the impact of the overburden removal at the high gold content Abyz mine.

KAZAKHMYNS COPPER – TRANSPORTATION AND LOGISTICS

The transportation of the Group's raw materials and production represents one of the largest logistics operations in Kazakhstan incorporating a Group owned network of over 1,000 kilometres of railway and a fleet of 100 locomotives and 800 wagons.

In July 2007, the Group entered into a long-term agreement with a subsidiary of Freight Services LLP to outsource the operation and maintenance of the Group's railways. Freight Services LLP is an experienced freight operator based in Almaty, Kazakhstan. Approximately 3,300 Group personnel have been reassigned to the outsourcing company.

The Group has committed \$30 million to the initial phase of a railway refurbishment programme to improve the reliability of the network and to reduce future operating and maintenance costs.

KAZAKHMYNS COPPER – POWER

The Group's principal generation asset is the coal fired thermal power station at Karaganda located on the northern grid of the Kazakhstan power network. Additional generation capacity is provided by smaller combined heat and power plants at the Zhezkazgan and Balkhash Complexes. Fuel for the power assets is supplied by the Group owned Borly coal mines.

At present, the majority of the Group's generation is dedicated to offsetting internal electricity requirements. A credit system allows the Karaganda generation to be transferred through the national grid to the Group's Zhezkazgan and Balkhash Complexes with the Group only bearing the cost of transmission. Any surplus generation is sold to the grid.

KAZAKHMYNS COPPER – FUTURE DEVELOPMENTS MINE EXTENSIONS AND NEW MINE DEVELOPMENTS

Kazakhmys Copper has several short to medium term mine expansion and production upgrade projects in progress at existing mines.

At the Zhezkazgan Complex, where a number of the mines are approaching maturity, the Taskura open pit extension to the existing North Mine is expected to supplement production from 2008. The expected life of the mine is 2 years with estimated ore resources of 4 MT containing 32 kt of copper. The East Sary-Oba underground mine is planned to commence output in 2010. The mine has an expected life of 20 years with estimated ore resources of 34 MT, containing over 495 kt of copper.

132.8^{KT}

BY-PRODUCT ZINC
PRODUCTION UP 3% ON 2006

1,305^{GWH}

ELECTRICITY PRODUCTION IN
EXCESS OF INTERNAL
REQUIREMENTS AND SOLD TO
THIRD PARTIES

Operating Review continued

In the other regions, additional medium-term development projects include the Kosmurun, Shatyrkul, Itauz and Nurkazgan complex mine extensions. The Kosmurun underground mine is expected to commence production in 2011. The project has an expected life of 13 years with estimated ore resources of 18.7 MT containing over 597 kt of copper. Kosmurun is in close proximity to the newly developed Akbastau mine which is expected to attain full production during 2008. Akbastau has ore resources of 12.4 MT containing 208 kt of copper.

Kazakhmys Copper has also approved the development of the West Nurkazgan underground mine, which is an extension of the West Nurkazgan open pit mine in the Karaganda Region. Initial production from the West Nurkazgan underground mine is anticipated during 2008.

Kazakhmys Copper's longer-term expansion projects include the large copper porphyry pits at Boschekul and Aktogay which will provide valuable production replacement as well as growth.

The Boschekul site has measured and indicated resources of 176 MT of ore with 1,269 kt of copper, although the size of the deposit has the potential to increase significantly if mineralisation in the eastern section of the deposit is proven. The project is currently at the pre-feasibility stage.

The Aktogay mine, located in the Balkhash Complex, is also intended to be a significant source of production for Kazakhmys Copper. The project will start with the development of the deposit's oxide resource and continue with sulphide operations if economically justified.

The engineering group, Fluor, are acting as the study contractor for both the Aktogay and Boschekul projects.

CONCENTRATORS AND SMELTERS

The Group has also committed to a medium-term programme of upgrades and refurbishments to the existing smelting and concentrating facilities. This programme will also include the construction of new concentrators and will increase production capacity, increase metal recovery rates and reduce transportation, consumable and maintenance costs.

Funding has been approved to upgrade Zhezkazgan Concentrator No.2 which will increase the processing capacity of the plant by around 5 MT of ore per year and improve the metal recovery rates achieved at the plant. This project is anticipated to be completed in 2010.

New concentrators include the Kosmurun concentrator which will be constructed for the Akbastau and Kosmurun mines. The Kosmurun concentrator will have an ore processing capacity of around 2 MT per year and will achieve a significant reduction in ore transportation costs for the Akbastau and Kosmurun mines. A Shatyrkul concentrator is also being considered to reduce transportation costs and is likely to have an ore processing capacity of around 0.5 MT per year.

REVIEW OF KAZAKHMY'S GOLD KAZAKHMY'S GOLD – PRODUCTION SUMMARY

koz (unless otherwise stated)	H2 2007	H2 2006
Ore extraction (kt)	1,206	1,151
Gold ore grade (g/t)	1.52	1.29
Gold precipitation	32.7	30.1
Gold doré production	32.5	28.4

In the period since acquisition, ore output from the three operational mines (Mizek, Central Mukur and Zhaima) has increased by 5% compared to the same period in 2006, principally as milder winter weather has enabled the heap leaching process to continue to operate in November. The increased ore output, coupled with a higher gold grade, has led to a 9% rise in the volume of gold recovered.

At Mizek, a new hydrometallurgical workshop has been constructed to recover copper and improve gold recovery from ores with high copper content. This facility will become fully operational in 2008. Whilst this was being constructed, the mine was focused on lower copper grade ore with any higher copper grade ore being stockpiled.

KAZAKHMY'S GOLD – FUTURE DEVELOPMENTS

Since becoming part of the Group, Kazakhmys Gold has focused on the development of two main gold deposits, Mizek Sulphide and Bozymchak, both of which are expected to result in profitable operations. As part of these developments, Kazakhmys Gold has continued to upgrade the confidence in ore quality, with the total measured and indicated gold resources having been raised from 1.9 MT to 2.3 MT during 2007.

SINCE ACQUISITION OF EURASIA GOLD IN JULY 2007, KAZAKHMY'S GOLD HAS FOCUSED ON DEVELOPMENT OF THE BOZYMCHAK AND MIZEK SULPHIDE PROJECTS

MIZEK SULPHIDE

At the Mizek site in north east Kazakhstan, approximately 340 km southwest of Semey, there is a large sulphide ore body which is the subject of a pre-feasibility study, expected to complete by June 2008, with planned extraction to commence in 2010. At present, Kazakhmys Gold is carrying out open pit mining on the oxide ore body located at the site.

To exploit the sulphide ore, a new open pit and underground mine will be constructed together with a concentrator to process the ore on-site. In addition, upgrades are planned for the power and water infrastructure.

BOZYMCHAK

A pre-feasibility study on the Bozymchak deposit in south western Kyrgyzstan has been in progress during 2007. Kazakhmys Gold was able to successfully extend the licence to develop the central part of the deposit to December 2007.

The site is 185 km from the nearest rail link and has a good water supply. In 2008, the infrastructure will be developed including improving the road links and installing power lines. Alongside this, the feasibility study will be carried out with production planned to commence in 2010. Exploration work will continue in 2008 focusing on both the main ore body below an existing adit and conducting further drilling across the site.

OTHER PROJECTS

Kazakhmys Gold carried out further exploration work on the Akjilga silver and copper deposit in Tajikistan in 2007. This will be stepped up in 2008 and this project is expected to enter the pre-feasibility stage in the second half of the year. Kazakhmys Gold will also conduct exploration work at a number of other sites in Central Asia.

REVIEW OF KAZAKHMY'S PETROLEUM

In April 2007, the Group acquired the petroleum exploration rights to East Akzhar. This is a 602 km² exploration block, located to the south of Aktobe in a region home to numerous oil and gas operations on the eastern fringe of the Caspian depression. East Akzhar is in close proximity to the Loktibai-Kenkiyak oil pipeline and the Kenkiyak-Atyrau gas pipeline.

Kazakhmys Petroleum has hired an experienced team to manage the exploration work with subcontractors being brought in to undertake the various site activities. Re-analysis of the available data on the exploration area was completed in 2007 and Kazakhmys Petroleum has started its shallow well drilling programme on the northern Elimisai section. This is expected to continue through to June 2008.

The main focus of the exploration activity is the southern Akzhar subsalt section which will be the subject of a 3D seismic survey conducted during 2008. The results of the survey will be used to plan the location of future new deep wells.

REVIEW OF MKM PRODUCTION

The Group's downstream copper business in Germany, MKM, is engaged in the production and sale of copper and copper alloy semi-finished products. MKM is organised into three business units: wire products, tubes and bars and flat products (strips, plates and sheets).

MKM's total sales were 265 kt, 8 kt less than in 2006, with the fall mainly attributable to a cut in the wire section output from 167 kt to 155 kt. In 2007, MKM has focused on higher margin products within its portfolio, switching output away from lower margin wire rod to tubes and bars, and flat products which saw sales rise from 43 kt to 44 kt and 63 kt to 66 kt, respectively.

Conti-M, MKM's continuous casting process for flat products, has been successfully producing ETP and DHP grade copper in 2007. Previously, this specification rolled strip had to be sourced externally, which had a negative impact on profit margins.

Financial Review

INCOME STATEMENT SUMMARY OF THE YEAR

Revenues for the year amounted to \$5,256.6 million, a 4.2% increase over 2006. Profit before taxation, finance items and negative goodwill was in line with the prior year at \$2,048.4 million and our key performance measure for earnings, EBITDA excluding special items, was \$2,336.3 million, 1.2% higher than in 2006. Earnings reflect the continued strength in commodity prices shown across the Group's main products.

Profit attributable to equity shareholders was \$1,415.7 million, compared to \$1,399.7 million in the prior year, an increase of 1.1%. Underlying Profit, a more informed measure of the Group's financial performance, increased slightly from \$1,402.7 million to \$1,409.5 million.

Basic and diluted EPS increased to \$3.04 per share, up from \$2.99 in 2006. EPS based on Underlying Profit, was \$3.02 per share compared to \$3.00 per share reported in 2006.

The Directors recommend a final ordinary dividend of 27.4 US cents per share, which together with the interim ordinary dividend of 13.6 US cents per share gives a total full year ordinary dividend of 41.0 US cents per share based on earnings for 2007 (2006: 38.5 US cents per share based on earnings for 2006). Coupled with a special dividend of 50.0 US cents per share which was declared at the time of the interim results, the total full year dividend in respect of 2007 earnings is 91.0 US cents per share. Dividend cover for the full year ordinary dividend is over seven times, and provides a solid platform to ensure a stable dividend flow in future years, subject to the performance of the business and the underlying growth in earnings of the Group.

KAZAKHMYS COPPER REVENUES

Revenues for Kazakhmys Copper increased from \$3,330.4 million to \$3,588.3 million, a 7.7% increase compared to the prior year. With commodity prices continuing to remain above their long run historic averages, revenues generated from the sales of our main products were strong, particularly for copper cathode, copper rod, zinc metal in concentrate and silver.

Revenues from the sale of copper cathodes were \$2,516.2 million, or 70.1% (2006: 71.7%), of the total revenues of the Kazakhmys Copper business. Although production volumes, excluding tolling, were 6.2% lower than the previous year at 380 kt, sales volumes of copper cathodes were 3.2% higher at 351 kt. This is primarily due to 49 kt of shipments to Europe that were scheduled to be delivered in December 2006 being delivered in January 2007 as the shipments took longer than anticipated over the New Year period. The comparative quantity of copper cathodes which was in transit at 31 December 2007 was 28 kt.

Zinc metal sales volumes fell by 40.1% to 38 kt compared to 2006. This was partially offset by slightly higher realised prices resulting in a fall in revenues of 38.5% to \$123.8 million from \$201.3 million in 2006. The continued difficulties faced by the Balkhash zinc smelter with its cooling systems resulted in a fall in production of zinc metal from 60 kt to 45 kt which impacted the volume of zinc metal sales. However, with the relative attractiveness of zinc concentrate prices and the availability of smelting capacity in the CIS, zinc is being sold as concentrate instead of being stockpiled at the zinc smelter without a material impact on overall Group profitability.

Solid financial results

Zinc in concentrate sales volumes increased by 32.8% and revenues increased from \$128.0 million to \$200.5 million, an increase of 56.6%. This increase was driven by higher levels of ore from the Artemyevsky and Kosmurun mines being processed in the year and the reduction in zinc concentrate inventory levels at the Balkhash zinc smelter. Capacity constraints at the zinc smelter in the production of zinc metal, as mentioned above, increased the volumes of zinc concentrate sold which, coupled with favourable prices for zinc concentrate, led to the large rise in revenues. During 2007, zinc in concentrate accounted for 5.6% of Kazakhmys Copper's revenues compared with 3.8% in 2006.

Silver sales volumes were 7.8% down compared to the prior year at 19,323 koz, with production falling 11.8% to 18,985 koz. Whilst silver production decreased due to lower ore output from the silver-rich ores in the Zhezkazgan and East Region mines, sales volumes were supported by a reduction in silver inventory levels across the year. Despite the reduction in sales volumes, revenues increased by 7.3% compared to the prior year predominantly due to a marked rise in realised silver prices of 16.7% compared to 2006.

Gold sales volumes from own ore were 38.1% higher than in 2006 at 116.0 koz and revenues were 56.8% higher at \$80.3 million. The higher revenues were driven primarily by increased production, which was 5.6% higher than 2006, a reduction in the volume of gold used internally within the jewellery factory and higher realised prices, which were 13.9% more favourable than in 2006.

Copper rod revenues were up from \$196.1 million to \$250.6 million, an increase of 27.8% following a 25.0% increase in sales volumes due to strong demand from the Chinese market. Copper rod now accounts for 7.0% of Kazakhmys Copper's revenues compared with 5.9% in 2006.

Other revenues of \$160.4 million compared to \$125.7 million in the prior year, related to the sale of surplus electricity, heating and coal, as well as the sales of other minor by-products, such as lead, rhenium, selenium, cadmium and sulphuric acid.

Whilst volatility was seen in copper prices throughout 2007, the average price during the year was 5.9% higher than in 2006. Gold and silver prices were particularly strong, rising 15.2% and 16.5%, respectively. The average market and realised prices for our main products during the year are set out below.

The average realised prices for our main products do not differ significantly from market prices as they are priced with reference to prevailing prices on global commodity exchanges. In line with industry practice, our sales agreements for copper cathodes provide for provisional pricing at the time of delivery with the final price based on the market price for future periods. Additionally, a premium over LME prices is incorporated into our sales agreements for copper cathode which reflects delivery terms and other contractual commitments.

EARNINGS

\$ million (unless otherwise stated)	2007	2006
Kazakhmys Copper		
Profit before taxation, finance items and negative goodwill	1,976.9	2,082.1
Add: loss from special items	23.3	10.3
Add: depreciation, depletion and amortisation	233.2	203.2
EBITDA excluding special items	2,233.4	2,295.6
Revenues	3,588.3	3,330.4
EBITDA excluding special items margin (%)	62.2	68.9

COMPARISON OF MARKET AND REALISED PRICES FOR MAIN PRODUCTS

	2007		2006	
	Average market price	Average realised price	Average market price	Average realised price
Copper (\$/tonne)	7,126	7,175	6,731	7,025
Zinc metal (\$/tonne)	3,250	3,237	3,273	3,145
Silver (\$/oz)	13.4	13.3	11.5	11.4
Gold (\$/oz)	696	695	604	610

KAZAKHMYS COPPER REVENUE SPLIT BY PRODUCTS \$ MILLION

Copper cathodes	2,389.0	2,516.2
Copper rod	196.1	250.6
Zinc	324.3	329.3
Silver	239.1	256.5
Gold	51.2	80.3
Other	125.7	160.4

■ 2006 ■ 2007

Financial Review continued

Cost pressures were faced within Kazakhstan due to its strong economy and, in common with other companies in the mining industry, there was more widespread pressure on input costs. General cost inflation within Kazakhstan and the mining industry was generally running in excess of 15% during 2007 which places pressure on input prices. In addition, the Kazakhstan tenge appreciated against the US dollar by 2.8%, with the average exchange rate strengthening from 126.09 KZT/\$ in 2006 to 122.55 KZT/\$ in 2007. The strengthening of the Kazakhstan tenge against the US dollar adversely impacts the profitability of the Kazakhmys Copper business in US dollar terms.

The EBITDA margin (excluding special items) fell from 68.9% in 2006 to 62.2% in 2007. Although commodity prices remained strong during 2007, the main reasons behind the lower margin were higher production costs, including the cost of purchased concentrate, with cost of sales for the Kazakhmys Copper business increasing by 27.2% from \$965.9 million to \$1,229.0 million. As a significant proportion of costs are fixed in nature, the reduction in production volumes did not result in a corresponding decrease in operating costs, and hence the margin fell.

Given the various production and technical issues experienced during the year, such as the flooding of the South mine, equipment shortages and the closure of mines for overburden removal, copper cathode production from own concentrate fell by 27 kt to 341 kt compared to 2006. To offset this reduction in own concentrate, the volume of cathodes produced from purchased concentrate increased by 5.4% from 37 kt to 39 kt in 2007, which represents 10.3% of total copper cathode production in 2007 (2006: 9.1%). The cost of purchased concentrate increased by \$38.7 million, or 12.7%, to \$343.8 million compared to 2006 due to the higher volumes of concentrate purchased as well as external market factors. The cost of concentrate also increased from 2006 reflecting the higher average copper price seen during the year and the gold and silver by-products contained within the concentrate.

Excluding the effects of purchased concentrate on costs and revenues generated from cathodes produced from purchased concentrate, the EBITDA excluding special items margin would have been 69.7% compared to 73.1% in 2006. This margin is a more informed measure when considering the results of the core mining business, and excludes the effects of purchased concentrate.

Employee remuneration was higher, for both production and administrative staff, increasing by 19.0% to \$314.3 million, following a pay rise in the fourth quarter of 2006 which was necessary to bring average salaries within the business into line with the local market. Wages and salaries are increasing generally across Kazakhstan due to improvements in the standard of living and a tight labour market for skilled labour across the natural resources sector within the CIS. Outsourcing opportunities are being actively considered to manage employee remuneration levels in the future, but with a current high rate of inflation within Kazakhstan, cost pressures are expected to continue.

Transportation costs increased from \$51.3 million to \$95.5 million, an increase of 86.2% compared to 2006. This increase is primarily attributable to higher maintenance spend in order to improve the reliability of equipment, and also due to higher volumes of ore transported from the Kosmurun mine to the Karagaily concentrator, approximately 220 km away. An evaluation is in progress on the construction of a new concentrator at the Kosmurun and Akbastau mines which should reduce these transportation costs in the future. Furthermore, railway transportation was outsourced midway during the year and this is expected to result in cost efficiencies in the future.

In addition, fuel costs increased by 23.1% to \$74.2 million reflecting the global increase in costs for gasoline and diesel fuel and the increased transportation relating to the Kosmurun mine. Utility costs increased by 27.3% to \$21.0 million as a result of above-inflation increases in tariffs and the higher volumes of energy required to transmit electricity to the more remote mines in the East and Karaganda Regions.

Selling and distribution costs fell slightly by 6.0% to \$48.5 million, reflecting a shift in sales from Europe to China in 2007 compared to 2006, with lower relative transportation and tariff charges.

Administrative costs rose by 55.2% to \$325.3 million. This increase was mainly due to increases in administrative wages and salaries as mentioned above, greater use of consultants in the areas of change management and automation, and higher social responsibility costs (which more than doubled to \$37.6 million) within Kazakhstan which reflects our commitment to the communities in which we operate.

Depreciation and depletion increased by 14.9% from \$200.8 million to \$230.7 million. This was due to a higher book value of property, plant and equipment attributable to rising levels of capital expenditure in recent years as well as the effect of the appreciation of the Kazakhstan tenge against the US dollar. In addition, with increasing levels of overburden removal affecting the open pit mines, higher depletion charges have been recognised in 2007 compared to the prior year.

As described on page 16, cash cost of copper after by-product credits is a measure in monitoring the low cost producer status of the Kazakhmys Copper business. The cash cost of copper after by-product credits amounted to 58.9 US cents per pound compared to 31.5 US cents per pound in 2006. This increase was primarily due to the increased cost of purchased concentrate and other higher production costs as mentioned above, whilst credits from by-product revenues were largely static across the years. Excluding the effects of purchased concentrate, the cash cost of copper was 32.9 US cents per pound which places the business amongst the lowest cost producers of copper in the world. The table shown on page 29 provides a reconciliation of the cash cost of copper including purchased concentrate after by-product credits from 2006 to 2007, which illustrates the relative importance of the above factors.

USc/lb

Average cash cost for year ended 31 December 2006	31.5
Increase in purchased concentrate	7.5
Increase in other cost of sales	16.1
Decrease in selling and distribution expenses	(0.6)
Increase in administrative expenses	5.6
Increase in other operating expenses and other income	3.7
Increase in by-product credits	(4.9)

Average cash cost for year ended 31 December 2007	58.9
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MKM**REVENUES**

For the year ended 31 December 2007, MKM reported revenues of \$1,643.0 million compared to \$1,716.1 million in 2006, a decrease of 4.3%. The main component within MKM's revenues is the input value of copper, accounting for approximately 98.0% of sales price. Contractual arrangements with customers ensure the input price of copper cathode is passed on in full. Whilst the reduction in revenues is primarily due to a fall in sales volumes, this was partially offset by the higher average copper price seen in 2007 compared to the prior year.

Sales volumes during the year fell from 273 kt in 2006 to 265 kt in 2007, a fall of 2.9%. This reduction was primarily due to a change in sales strategy with the focus during the year on selling higher value added products (tubes, bars and flat products) rather than lower margin wire rods. Whilst this strategy curtailed revenue growth, particularly in the lower margin wire rod business, increased volumes of higher margin products had a positive impact on relative profitability as well as working capital levels within the business and the associated financing costs.

Following this change in focus in MKM's sales activities, there were strong performances in the revenues of the higher margin products with revenues for sheets up 21.2%, strips up 16.5% and bars up 26.2% compared to 2006 due to

positive market conditions and increased customer demand for these products. However, revenues from wire rods were down 18.3% compared to 2006 as MKM moved away from selling these lower margin products.

The slowdown in the global economy seen in the second half of 2007 has had an impact on MKM, particularly in its larger western European markets and in North America. Despite this, there is still good demand for sheets, bars and industrial tubes. MKM is also strengthening its presence in its core markets, and is looking at new opportunities outside these markets, such as Eastern Europe, the CIS and the Far East.

EARNINGS

\$ million (unless otherwise stated)	2007	2006
MKM		
Profit before taxation, finance items and negative goodwill	10.3	21.6
Add: loss from special items	–	0.1
Add: depreciation and amortisation	23.5	22.2
EBITDA excluding special items	33.8	43.9
Revenues	1,643.0	1,716.1
EBITDA excluding special items margin (%)	2.1	2.6

Although EBITDA excluding special items fell from \$43.9 million (2.6% margin) in 2006 to \$33.8 million (2.1% margin) in 2007, the underlying performance of MKM was masked by the impact of copper price fluctuations on the valuation of stock. These fluctuations were also impacted by falling stock levels at MKM. The business has been gradually managing stock levels downwards for working capital purposes during 2007. Included within earnings in 2007 is a cost of approximately \$3 million (2006: contribution of approximately \$24 million) arising from the impacts of copper price fluctuations on the valuation of stock and falling stock levels.

**RECONCILIATION OF CASH COST OF COPPER
(AFTER BY-PRODUCT CREDITS)**

USc/lb

2006	31.5
1	7.5
2	16.1
3	(0.6)
4	5.6
5	3.7
6	(4.9)
2007	58.9

Cash cost of copper for year ended 31 December 2006
(per lb)

- 1 Increase in purchased concentrate
- 2 Increase in other cost of sales
- 3 Decrease in selling and distribution expenses
- 4 Increase in administrative expenses
- 5 Increase in other operating expenses and other income
- 6 Increase in by-product credits

Cash cost of copper for year ended 31 December 2007
(per lb)

**COMPARISON BETWEEN BUSINESS SEGMENTS –
REVENUES**

\$ MILLION

2007	3,588.3	1,643.0	25.3	5,256.5
2006	3,330.4	1,716.1	0.0	5,046.5

■ Kazakhmys Copper ■ MKM ■ Kazakhmys Gold

Financial Review continued

Excluding the impact of these material influences on earnings, the improvements made in the underlying trading performance of MKM compared to the prior year can be seen, with EBITDA excluding special items increasing from \$19.9 million in 2006 to \$36.8 million in 2007, an increase of 84.9%.

As described previously, MKM's earnings prepared under IFRS are particularly volatile due to the impacts of copper price fluctuations on the valuation of stock and stock levels. In assessing MKM's performance, management uses a more informed trading measure termed the 'Gross Value Add' (GVA) as MKM is primarily a fabricating downstream business. This measure is commonly used in this industry to measure the 'value add' of the production process to purchased raw materials. Despite sales volumes falling by 2.9%, the GVA rose from \$169.8 million to \$207.7 million, an increase of 22.3% due to a combination of higher margin products being sold and greater conversion charges.

KAZAKHMY'S GOLD

On 5 July 2007, the Group acquired 96.34% of the ordinary shares of Eurasia Gold (subsequently renamed Kazakhmys Gold), a company listed on the Toronto Stock Exchange. Since the offer was accepted by holders of more than 90% of the Eurasia Gold shares, Kazakhmys Gold Inc., an indirectly wholly owned subsidiary of the Company, exercised its right under Canadian legislation to acquire the outstanding Eurasia Gold shares not already owned by it. On 12 September 2007, the Group completed the compulsory acquisition, thereby taking its interest in Eurasia Gold to 100% with the total consideration being paid for the company of \$270.9 million. The principal activity of Kazakhmys Gold and its subsidiaries is the mining and processing of gold ore into refined ore, and exploration and development activity in the precious metals sector within Central Asia.

The results of Kazakhmys Gold have been consolidated into those of the Group from the date of acquisition.

REVENUES

Revenues for Kazakhmys Gold for the period since acquisition, from the three operating mines (Zhaima, Mizek and Mukur) amounted to \$25.3 million, which comprised \$25.0 million of gold doré (34.1 koz) and \$0.3 million of silver (23.5 koz). The average realised price for gold doré over the period since acquisition was \$734.1 per ounce, which was slightly above the average LBMA market price of \$732.4 per ounce. The gold doré is sold for further processing into gold bullion under an annual sales contract with a European refiner.

EARNINGS

\$ million (unless otherwise stated)	2007	2006
Kazakhmys Gold		
Profit before taxation, finance items and negative goodwill	0.8	—
Add: depreciation, depletion and amortisation	5.7	—
EBITDA excluding special items	6.5	—
Revenues	25.3	—
EBITDA excluding special items margin (%)	25.7	—

EBITDA excluding special items for the period since acquisition was \$6.5 million (25.7% margin). Of the total depreciation, depletion and amortisation charge of \$5.7 million for the period since acquisition, \$4.0 million was attributable to the uplift in tangible fixed assets and mining assets which were identified during the fair value exercise at the time of acquisition. Cost of sales amounted to \$21.5 million and other operating costs were \$3.0 million. Compared to the performance in prior years, earnings benefited from the milder winter weather experienced in Kazakhstan at the end of 2007, which allowed the heap leaching process to continue for longer in the season than would normally be expected.

KAZAKHMY'S PETROLEUM

On 2 April 2007, the Group acquired Kazakhmys Petroleum LLP (previously called Dostan-Temir LLP), a company which held a licence to conduct oil and gas exploration and development activity on a 602 km² petroleum block in the East Akzhar region in western Kazakhstan. The total consideration payable was \$450.0 million, including the subscription bonus which was payable to the Government when the exploration licence was signed.

\$ million	2007	2006
Kazakhmys Petroleum		
Loss before taxation, finance items and negative goodwill	(1.4)	—
Add: loss from special items	1.1	—
EBITDA excluding special items	(0.3)	—

The four year exploration licence was signed on 22 May 2007 and thereafter, Kazakhmys Petroleum has been engaged in purchasing and analysing geological and geophysical data relating to the exploration block. In June 2007, the Group engaged an experienced team to manage the exploration programme, and the well drilling programme commenced in the shallow northern area of the block. 3D seismic work has also commenced in the deeper southern area of the block, and will continue throughout 2008. Once this data has been interpreted, the deep drilling programme will commence.

Since the Group adopts a successful efforts approach to exploration activity, the majority of the costs incurred during the year have been capitalised. Operating costs charged to the income statement during the period amounted to \$1.4 million.

GROUP EARNINGS

Profit before taxation, finance items and negative goodwill decreased slightly from \$2,071.6 million to \$2,048.4 million, split between \$1,976.9 million for Kazakhmys Copper, \$10.3 million for MKM, \$0.8 million for Kazakhmys Gold, a loss of \$1.4 million for Kazakhmys Petroleum and a profit of \$61.8 million for unallocated corporate costs (which includes dividend income of \$93.9 million from ENRC PLC).

Depreciation, depletion and amortisation amounted to \$263.5 million in 2007, an increase of 16.7% compared to \$225.8 million in 2006, as a result of increased capital expenditure in the Group and acquisitions of new businesses made during the year.

\$ million (unless otherwise stated)	2007	2006
EBITDA excluding special items:		
Kazakhmys Copper	2,233.4	2,295.6
MKM	33.8	43.9
Kazakhmys Gold	6.5	—
Kazakhmys Petroleum	(0.3)	—
Unallocated income/(costs) excluding special items (excluding depreciation of \$1.1 million; 2006: \$0.4 million)	62.9	(31.1)
Total EBITDA excluding special items	2,336.3	2,308.4
Total EBITDA excluding special items margin (%)	44.4	45.7

REVENUES AND EBITDA GROWTH \$ MILLION

2007	2,336.3	5,256.6
2006	2,308.4	5,046.5
2005	1,073.5	2,597.5
2004	791.4	1,259.5
2003	418.7	836.9

EBITDA excluding special items Revenue

Consistent with other international mining companies, EBITDA excluding special items has been chosen as the key measure in assessing the underlying trading performance of the Group between the current and prior years. This performance measure removes depreciation, depletion, amortisation and non-recurring or variable items in nature which do not impact the underlying trading performance of the business.

During 2007, these non-recurring or variable items related to a gain on disposal of fixed assets of \$1.8 million, the write off of property, plant and equipment of \$26.2 million and the tax benefit of a Group restructuring of \$30.8 million. Despite the significant cost pressures faced by the Group's operations in Kazakhstan and the lower production levels, the overall margin at the level of EBITDA before special items was in line with the prior year at 44.4% compared to 45.7% in 2006.

NET FINANCE ITEMS

Net financing costs were \$22.5 million during 2007, which contrasts with net financing income of \$89.7 million that arose in the prior year.

A net foreign exchange loss of \$92.2 million is included within the net finance cost, compared to a gain of \$26.4 million that was recognised in 2006. The foreign exchange loss primarily arose on the high level of US dollar denominated cash deposits and current investments held with Kazakhmys LLC during the majority of the year, as a result of the appreciation of the Kazakhstan tenge against the US dollar which moved from 127.00 KZT/\$ as at 31 December 2006 to 120.30 KZT/\$ at 31 December 2007, a 5.3% movement.

Net financing costs, other than foreign exchange gains, includes a finance cost of \$13.7 million which predominantly relates to interest payable on the MKM bank loan. Unwinding of long-term provisions and employee benefits also gave rise to an interest charge of \$10.5 million.

Finance income primarily relates to interest earned from US dollar denominated deposits placed with financial institutions in the UK, and to a lesser extent, fixed term deposits placed with financial institutions in Kazakhstan denominated either in US dollar or Kazakhstan tenge. Interest income of \$93.9 million is 19.6% higher than the 2006 figure of \$78.5 million reflecting the higher cash and deposit balances compared to 2006 as a result of continued buoyant commodity prices, and the effect of higher global interest rates received on the Group's liquid funds.

Financial Review continued

TAXATION

The effective tax rate for the year was 29.6% compared to a rate of 34.8% in the prior year. The overall tax charge was \$599.2 million, a reduction of \$155.5 million compared to the prior year, reflecting the lower taxable profits and effective tax rate.

The effective tax rate has decreased from 2006 principally due to the non-recurring benefit of a Group tax restructuring that took place during 2007 which lowered the effective rate by 1.5%, and the absence of a need for any additional accrual for withholding tax at the end of 2007. Partially offsetting these factors were higher disallowable items within Kazakhmys LLC, principally arising from higher social spending and other items of expenditure within Kazakhstan which are non-deductible, and the reduced benefit of the tax holiday associated with the Balkhash zinc smelter which lowered the effective rate by 1.3% in 2007 compared to 2.1% in 2006 as a result of reduced zinc metal revenues caused by lower zinc production.

Excess profits tax is levied in addition to corporate tax on the profits attributable to certain subsoil contracts where the internal rate of return exceeds 20%. For 2007, excess profits tax of \$36.5 million was charged to earnings which represented an incremental 1.8% to the effective tax rate, up from 0.7% in 2006. In the prior year, the incremental impact arising from excess profits tax was masked by a release of \$49.4 million from the excess profits tax liability relating to prior years as the excess profits tax methodology was re-considered following developments in the interpretation of tax legislation within Kazakhstan. Excluding the effects of this reassessment, last year's charge arising from excess profits tax increased the effective tax rate by 3.0%. The determination of excess profits tax depends on a number of factors, including the profitability of individual subsoil contracts, the level of capital expenditure and future pricing assumptions.

Withholding taxes of \$91.8 million had been recognised in 2006 in relation to the unremitted earnings of Kazakhmys LLC existing as at 31 December 2006 which were expected to be remitted to the UK in the future through dividend distributions. This contributed an additional 4.2% to the effective tax rate in 2006. Based on the expected dividend flows in the future, an additional charge to the income statement is not required for 2007.

Following an increase in trade taxes in Germany, the effective tax rate for MKM slightly increased from 35.98% to 37.34% during the year. However, following the German government's decision to reduce corporate tax rates, the effective tax rate for MKM will fall in 2008. The effect of this lower tax rate has resulted in a reduction in German deferred taxes which reduces the effective tax rate by 0.5% in 2007.

The recurring effective tax rate is expected to remain at levels in excess of the statutory Kazakhstan tax rate of 30% due to excess profits taxes arising on profitable subsoil contracts at the current time of high commodity prices, and the additional withholding tax payable on dividend distributions from Kazakhstan to the UK.

MINORITY INTERESTS

In the second half of 2007, the Company issued 2,559,665 ordinary shares of 20 pence each and paid \$11.5 million in consideration for 227,959,211 participating shares in Kazakhmys LLC owned by minority shareholders. As a result of this transaction, the Company's interest in Kazakhmys LLC increased from 99.08% as at 31 December 2006 to 99.73% as at 31 December 2007. There are no immediate plans to acquire further minority interests.

As a result of the smaller interest held by minority shareholders in Kazakhmys LLC during the year, the minority interest's attributable share of earnings and net assets reduced in the year.

PROFIT FOR THE YEAR AND UNDERLYING PROFIT

Profit for the year attributable to equity shareholders increased from \$1,399.7 million to \$1,415.7 million, a slight increase of 1.1%. Underlying Profit is seen as a more informed measure of the Group's financial performance as it removes non-recurring or variable items (and their resulting tax and minority interest impacts) that have taken place during the year, to give a more representative figure of underlying Group performance. It provides a more consistent basis for comparing the underlying trading performance of the Group between 2007 and 2006.

The reconciliation of Underlying Profit from profit attributable to equity shareholders is set out below.

\$ million	2007	2006	% change
Profit attributable to equity shareholders of the Company	1,415.7	1,399.7	1.1
Special items:			
Recognition of negative goodwill	–	(6.5)	
Write off of property, plant and equipment	26.2	1.4	
(Gain)/loss on disposal of fixed assets	(1.8)	9.6	
Tax effect of special items	0.3	(1.5)	
Release of deferred tax liability following Group restructuring	(30.8)	–	
Minority interest effect of special items	(0.1)	–	
Underlying Profit	1,409.5	1,402.7	0.5

EARNINGS PER SHARE

The income and share data used in the basic and diluted EPS and EPS based on Underlying Profit computations are shown below.

Basic EPS for the year increased from \$2.99 per share to \$3.04 per share, an increase of 1.7%. There are no differences between basic and diluted EPS. EPS based on Underlying Profit increased from \$3.00

per share to \$3.02 per share, an increase of 0.7%.

The weighted average number of shares in issue reduced slightly from 467.5 million shares during 2006 to 466.1 million shares in 2007, due to the issue of 2.6 million shares to acquire the minority interests in Kazakhmys LLC between June and September 2007, offset by the purchase and cancellation of 9.9 million shares towards the end of 2007 as part of the Company's share buy-back programme.

	2007	2006	% change
Weighted average number of shares in issue	466,073,506	467,474,200	(0.3)
Profit attributable to equity shareholders of the Company (\$ million)	1,415.7	1,399.7	1.1
Underlying Profit (\$ million)	1,409.5	1,402.7	0.5
EPS – basic and diluted (\$)	3.04	2.99	1.7
EPS based on Underlying Profit (\$)	3.02	3.00	0.7

DIVIDENDS

The Directors recommend a final ordinary dividend of 27.4 US cents per share, which together with the interim ordinary dividend of 13.6 US cents per share gives a total full year ordinary dividend of 41.0 US cents per share based on earnings for 2007 (2006: 38.5 US cents per share based on earnings for 2006). Coupled with a special dividend of 50.0 US cents per share which was declared at the time of the interim results, the total full year dividend in respect of 2007 earnings is 91.0 US cents per share.

The Company intends to maintain a dividend policy which will take into account the profitability of the business and underlying growth in earnings of the Group, as well as its cash flows and growth requirements. The Directors will also ensure that dividend cover is prudently maintained. Interim and final ordinary dividends will be paid in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively. The Directors also propose special dividends when they deem these appropriate after taking into consideration the capital structure of the Group, operating cash flows and major future funding commitments.

SHARE BUY-BACK PROGRAMME

Commencing on 24 October 2007, the Group began a share buy-back programme as a means of returning cash to shareholders. During 2007, the Group bought back and cancelled 9.9 million ordinary shares at an average price of £13.16 per share and at a total cost of \$270.3 million, including expenses. This reduced the issued share capital of the Company to 460,123,288 ordinary shares as at 31 December 2007.

The buy-back programme was completed by the end of January 2008, whereby a total of 15.1 million ordinary shares at an average price of £12.73 per share have been bought back and cancelled at a total cost of \$390.1 million, including expenses.

The Group considers share buy-back programmes and special dividends as an integral part of managing the Group's capital base effectively.

ENRC INVESTMENT

Following approval from the independent shareholders at an extraordinary general meeting held on 19 October 2007, and receipt of regulatory approvals from the Government, the Group exercised the call option over Vladimir Kim's interest in Eurasian Natural Resources Corporation PLC (ENRC) and acquired 18.8% of the shares at a price of \$806.3 million on 26 October 2007.

In December 2007, shortly after ENRC listed on the main board of the London Stock Exchange, the Group received a dividend of \$93.9 million from ENRC which represented a return on the original investment of 11.6%. The dividend is shown within unallocated corporate income.

At the time of the listing of ENRC in December 2007, new shares were issued by ENRC which the Group did not subscribe to and hence the Group's interest in ENRC reduced from 18.8% to 14.6%, taking into account the full exercise of the over-allotment option. At 31 December 2007, the market value of this investment was \$2,401 million, a return of over 200% on the original investment taking the receipt of dividends into account, and represented a value of £2.61 per Kazakhmys share in issue at that time. Since the year end, the market value of the investment has grown to well over \$3 billion.

Financial Review continued

CASH FLOWS

A summary of cash flows is shown below highlighting the key items.

\$ million	2007	2006
EBITDA	2,311.9	2,297.4
Recognition of negative goodwill	–	(6.5)
Write off of assets and impairment losses	30.1	9.9
Gain on disposal of assets held for trading	(0.5)	–
(Gain)/loss on disposal of property, plant and equipment	(1.8)	9.6
Foreign exchange loss adjustment	(57.2)	(13.5)
Working capital movements	(282.7)	(254.6)
Interest paid	(13.7)	(6.8)
Income tax paid	(849.6)	(623.3)
Net cash flows from operating activities	1,136.5	1,412.2
Sustaining capital expenditure	(241.2)	(85.0)
Free Cash Flow	895.3	1,327.2
Expansionary and new project capital expenditure	(701.8)	(260.1)
Interest received	121.3	77.2
Acquisition of subsidiaries, net of liquid funds and borrowings acquired	(265.2)	(2.0)
Capital transactions between subsidiary and shareholders	(281.8)	1.6
Dividends paid	(423.9)	(233.4)
Acquisition of interest in ENRC	(806.3)	–
Other movements	(0.3)	3.7
Cash flow movement in net liquid funds	(1,462.7)	914.2

RECONCILIATION OF EBITDA TO FREE CASH FLOW \$ MILLION

2006	2,311.9
1	27.8
2	(57.2)
3	(282.7)
4	(13.7)
5	(849.6)
6	(241.2)
2007	895.3

EBITDA

- 1 Write offs, impairment losses and fixed assets disposal losses
 - 2 Foreign exchange loss adjustment
 - 3 Working capital movements
 - 4 Interest paid
 - 5 Income tax paid
 - 6 Sustaining capital expenditure
- Free Cash Flow

SUMMARY OF THE YEAR

During the year, the net liquid funds position of the Group reduced from \$1,745.3 million to \$298.3 million, a reduction of \$1,447.0 million. Key cash outflows during the year were income tax payments of \$849.6 million, significant capital expenditure of \$943.0 million, including \$450.0 million for the oil and gas exploration licence acquired within Kazakhmys Petroleum in the first half of 2007, the acquisition of Kazakhmys Gold for \$270.9 million in the second half of 2007, the acquisition of an 18.8% interest in ENRC for \$806.3 million in October 2007, net repayment of borrowings of \$112.4 million primarily within MKM and a total return to shareholders of \$694.2 million.

Despite adverse working capital movements, significantly higher payments to the tax authorities and increased sustaining capital expenditure, Free Cash Flow, a key performance indicator of the Group's ability to translate earnings into cash flow available for returns to shareholders, and investment and financing purposes, was a healthy \$895.3 million.

The Group's ability to generate continued positive Free Cash Flow provides funds for additional investment in expanding the Group's existing operations and capacities, as well as providing flexibility to respond to any capital management initiatives and opportunistic acquisitions.

OPERATING CASH FLOWS

Operating cash flows decreased by \$275.7 million from \$1,412.2 million in 2006 to \$1,136.5 million in 2007 primarily due to the increased tax payments made during the year which increased by \$226.3 million to \$849.6 million. The higher level of tax payments is mainly attributable to the 2007 schedule of tax payments on account that was agreed with the tax authorities being based on earnings for 2006, which were significantly higher than earnings in 2005 (on which the 2006 tax payments schedule was based upon). In addition, payments were made to the tax authorities in April 2007 in respect of the final instalment of 2006 tax due of \$38.4 million and the excess profits tax relating to 2006 of \$62.6 million. The tax liability for the Kazakhmys Copper business at the year end is approximately \$200 million lower than at the comparative year end, reflecting the markedly higher tax remittances during 2007.

Working capital levels for the Group increased by \$282.7 million during 2007. Increased levels of inventories held by Kazakhmys Copper offset the reduction in inventory held within MKM. Additionally, the level of goods in transit held by Kazakhmys Copper at 31 December 2007 fell significantly compared to 31 December 2006 when 49 kt of copper cathodes were in transit and were sold in early 2007. At 31 December 2007, 28 kt of copper cathodes were in transit which were sold in early 2008. The increased inventory balances within the Kazakhmys Copper business were mainly attributable to targeted increases in spare parts and consumables in order to reduce stoppage time of plant and equipment, and stockpiled ore at the Nurkazgan mine awaiting processing prior to the commissioning of the adjoining concentrator in 2008. There was also an adverse working capital impact relating to the expiry of a 2006 sales contract, whereby in December 2006, the customer made a significant payment in advance of the goods being shipped in early 2007.

FINANCING CASH FLOWS

Of the total interest income of \$121.3 million, \$100.1 million was received by Kazakhmys Copper arising from the significantly higher cash and bank deposit levels held during the year, compared to 2006. During the year, short-term bank deposits held within Kazakhmys LLC were converted to cash on maturity and were gradually moved from Kazakhstan financial institutions to financial institutions based in western Europe in order to reduce credit and counterparty risk over the course of the year. These funds were utilised by the Group to fund the acquisitions executed during the year, as well as returning cash to shareholders through dividends and the share buy-back programme.

Given the change in sales strategy during the year within MKM of focusing on higher margin products and increasing the levels of tolling, inventory levels reduced by approximately 25% in volume terms and this had a direct impact on the financing requirements of the business. Accordingly, MKM repaid external borrowings, and when combined with the repayment of external borrowings within Kazakhmys Gold after its acquisition, the Group made a net repayment of borrowings of \$112.4 million during the year.

During 2007, the total returns to shareholders amounted to \$694.2 million which contrasted with \$233.4 million that were returned during 2006. Total dividends of \$423.9 million were paid by the Group, representing the 2006 final dividend of \$120.1 million, the 2007 interim dividend of \$64.0 million, a special dividend of \$235.0 million and dividends paid by Kazakhmys LLC to minority interests of \$4.8 million. The Group also commenced a share buy-back programme, as described on page 33, at a total cost of \$270.3 million, including expenses.

INVESTING CASH FLOWS

Capital expenditure on mining assets, property, plant and equipment and intangible assets amounted to \$943.0 million (2006: \$345.1 million), split between \$241.2 million for sustaining capital expenditure and \$701.8 million for expansionary and new project capital expenditure. Included within the latter category, is the acquisition cost of the petroleum licence of \$450.0 million, which includes the subscription bonus that was payable to the Government when the exploration licence was signed in May 2007. Details of the major areas of capital expenditure during the year are described below. Proceeds from the disposal of property, plant and equipment were \$8.0 million as redundant assets are normally sold for scrap or negligible value.

The acquisition cost of Eurasia Gold amounted to \$270.9 million, of which \$260.1 million was paid in July 2007 when the original offer closed, with a further payment in September 2007 for the compulsory purchase of the minority interests not acquired initially.

BALANCE SHEET

SUMMARY OF MOVEMENTS

Shareholders' funds as at 31 December 2007 stood at \$6,419.2 million, an increase of \$2,559.3 million compared to the balance as at 31 December 2006. The increase was primarily due to the acquisition of the 14.6% interest in ENRC which increased shareholders' funds by \$1,594.7 million, retained earnings for the year of \$1,415.7 million, positive currency translation movements of \$223.1 million offset by the returns to shareholders.

The currency translation differences largely arose in respect of Kazakhmys LLC due to the appreciation of the Kazakhstan tenge against the US dollar from a rate of 127.00 KZT/\$ as at 31 December 2006 to 120.30 KZT/\$ as at 31 December 2007, a 5.3% movement. There was also an appreciation of the Euro against the US dollar in respect of MKM which contributed to the positive currency translation movement.

NON-CURRENT ASSETS AND LIABILITIES

Property, plant and equipment as at 31 December 2007 was higher compared to the prior year balance, after capital expenditure of \$455.1 million and the benefits of \$112.3 million arising from currency translation differences which were offset by depreciation of \$228.9 million. Significant expansionary and new project capital expenditure during the year related to the construction of a new concentrator at the Nurkazgan mine, expenditure on the Balkhash acid plant which is expected to be commissioned during 2008, construction of initial infrastructure related to the Group's major growth projects at Aktogay and Boschekul, the opening of new mines and extensions at the North Nurkazgan, East Sary-Oba and Taskura mines and payments for new aircraft as part of the fleet replacement programme. Disposals of property, plant and equipment were not significant during the year.

Financial Review continued

Mining assets increased from \$143.5 million at 31 December 2006 to \$388.0 million at 31 December 2007. This increase was primarily due to acquisition of Kazakhmys Gold during the year, which increased mining assets by \$238.6 million, reflecting the development potential of the mining reserves within this business. Also included within mining assets are mine stripping costs which increased from \$45.7 million to \$56.8 million due to overburden removal, primarily at the Abyz mine, but also at the Kounrad, Nurkazgan and Kosmurun open pit mines.

Intangible assets increased by \$538.6 million from \$28.9 million at 31 December 2006 to \$567.5 million at 31 December 2007. This increase was mainly represented by the purchase of Kazakhmys Petroleum and the related oil and gas licence for \$450.0 million. In addition to this acquisition, \$26.4 million in respect of contractual reimbursements to the Government for geological information and social commitments relating to the oil and gas licence have also been capitalised, with a corresponding provision. New mining licences, totalling \$9.4 million, were acquired by Kazakhmys Copper during the year, and relate to the development of new mineral deposits across Kazakhstan.

Goodwill of \$45.9 million has been recognised relating to the acquisition of Kazakhmys Gold. The goodwill arises from the requirement to recognise a deferred tax liability on the fair value adjustments recognised at the time of acquisition, and this goodwill will be tested annually for impairment in accordance with international accounting standards.

The liability for employee benefits increased by \$4.5 million to \$37.2 million. The main component of the liability relates to unfunded post-retirement benefits of \$33.6 million for employees in Kazakhmys LLC. The Group has no pension obligations, other than a contingency in respect of the payment obligations of the Kazakhmys LLC-sponsored pension fund, termed the Accumulating Pensions Funds of Kazakhmys LLC Corporation (the 'Fund'). Certain of Kazakhmys LLC's employees and former employees are beneficiaries. The Fund's rules set out that the payment obligations to fund beneficiaries are based on the nominal value of contributions made by the beneficiaries, indexed in accordance with a formula set out in the Fund's rules. In the event that the assets of the Fund are insufficient to cover the payment obligations to the beneficiaries, the voting shareholders of the Fund (including Kazakhmys LLC) are jointly liable for the shortfall.

The last valuation as at 31 December 2007 showed that the payment obligations of the Fund were \$191.4 million, and the market value of its assets was \$208.8 million. No deficit has arisen within the Fund at any balance sheet date since its inception.

Provisions of \$111.9 million were \$52.6 million higher than in 2006. The increase was primarily as a result of new provisions in respect of the contractual reimbursements to the Government for geological information and social commitments relating to the oil and gas exploration, referred to previously. Site restoration provisions of \$44.0 million were \$15.6 million higher than in 2006, which are determined with reference to the requirements of subsoil use contracts in accordance with Kazakhstan legislation.

WORKING CAPITAL

Working capital increased by \$282.7 million during 2007. Inventory levels increased within the Kazakhmys Copper business primarily due to higher levels of spare parts and consumables and stockpiled ore at the Nurkazgan mine, partially offset by the reduction of goods in transit of copper cathode by 21 kt. There was also an increase in advances paid and VAT reclaimable reflecting upfront payments remitted to suppliers towards the end of 2007 in respect of significant items of capital expenditure. Furthermore, there was an adverse impact relating to the expiry of a 2006 sales contract, whereby in December 2006, the customer made a significant payment in advance of the goods being shipped in early 2007. Working capital levels within MKM fell primarily as a result of management reducing inventory levels held within the business and increasing tolling levels.

NET LIQUID FUNDS

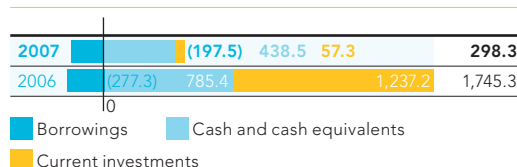
Net liquid funds consists of cash and cash equivalents, current investments and borrowings. A summary of the net liquid funds position as at 31 December 2007 and 2006 is shown below.

\$ million	2007	2006
Current investments	57.3	1,237.2
Cash and cash equivalents	438.5	785.4
Borrowings	(197.5)	(277.3)

Net liquid funds **298.3** 1,745.3

The level of net liquid funds has dropped significantly during the year as a result of the acquisitions completed by the Group during 2007, which exceeded \$1.5 billion, and the returns to shareholders amounting to almost \$700 million.

ANALYSIS OF NET LIQUID FUNDS \$ MILLION



After the staged withdrawal of funds from Kazakhstan during the year, surplus funds within the Group are held predominantly in the UK, with funds remaining within Kazakhstan utilised mainly for working capital purposes.

Cash and cash equivalents include \$189.5 million of fixed rate deposits with a maturity of less than three months, with the remaining balance being held as cash in low interest on-demand or interest free accounts. Of the total cash and cash equivalents balance of \$438.5 million, Kazakhmys Copper held \$216.9 million (of which \$20.5 million was held in the UK), MKM held \$6.7 million, Kazakhmys Gold held \$13.6 million, Kazakhmys Petroleum held \$20.9 million and corporate entities held \$180.4 million (of which \$94.1 million was held in the Netherlands and \$86.3 million was held in the UK). Of the total cash and cash equivalents balance, \$316.1 million (2006: \$726.2 million) was denominated in US dollars, \$107.9 million (2006: \$22.5 million) was denominated in Kazakhstan tenge, \$14.3 million (2006: \$36.1 million) was denominated in Euros with the remaining balance being held in other currencies.

Current investments include fixed rate deposits of \$50.0 million and \$7.3 million held in US dollars and Kazakhstan tenge, respectively, within Kazakhmys Copper. The maturities of these deposits, which are held with financial institutions based in Kazakhstan, are of varying periods up to 12 months.

Borrowings reduced from \$277.3 million to \$197.5 million primarily due to improved working capital management at MKM which reduced financing requirements. By the year end, Kazakhmys Gold had repaid most of its outstanding borrowings absorbed by the Group at the time of acquisition.

On 29 February 2008, the Group signed a five year pre-export finance debt facility of \$2.1 billion to be used for general corporate purposes, including the acquisition of the Ekibastuz power plant.

CAPITAL EMPLOYED

A summary of capital employed is shown below.

\$ million (unless otherwise stated)	2007	2006
Equity shareholders' funds	6,419.2	3,859.9
Minority interests	14.0	31.9
Borrowings	197.5	277.3
Capital employed	6,630.7	4,169.1
Profit before taxation, finance and negative goodwill	2,048.4	2,071.6
ROCE (%)	30.9	49.7

Capital employed increased in the year by \$2,461.6 million to \$6,630.7 million from \$4,169.1 million in the prior year, a 59.0% increase, primarily due to the acquisition of the 14.6% interest in ENRC which increased capital employed by \$1,594.7 million. The remainder of the increase was due to a combination of factors: the continued strong profitability of the Group during the year which offset the returns to shareholders, positive currency translation differences due to the appreciation of the Kazakhstan tenge against the US dollar and a reduction in the level of borrowings reflecting the improved working capital management and financing position of MKM. Earnings have not risen at the same rate as the increase in capital employed, primarily due to the uplift in equity arising from the investment in ENRC, and as a result, ROCE has fallen from 49.7% in 2006 to 30.9% in 2007.

The minority interests balance fell from \$31.9 million to \$14.0 million reflecting the acquisition of the majority of the remaining minority interests in Kazakhmys LLC in September 2007.

TAXATION

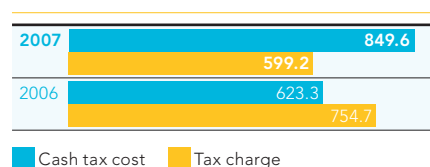
TAX STRATEGY AND RISK MANAGEMENT

The Group is subject to taxation in the UK and the various foreign countries in which it operates. Tax legislation of the jurisdictions in which the Group operates differs and is subject to interpretation by management and the government authorities, and as such, creates a risk of non-compliance with specific tax requirements. Whilst the Directors believe that the Group is in substantial compliance with tax legislation and contractual terms entered into that relate to tax, the complexity and judgemental nature of tax legislation in certain jurisdictions result in additional risk for the Group. Specific areas of complexity include the valuation of the taxable base for excess profits tax purposes, and cross border transactions, particularly, the application of transfer pricing policies, controlled foreign companies issues and the availability of UK tax credits arising from foreign taxes paid on overseas earnings.

The Group's core objectives in managing and controlling its tax affairs and related tax risks are as follows:

- ensuring compliance with applicable rules and regulations in the jurisdictions in which the Group operates;
- structuring the business in the most efficient and transparent manner with the emphasis being on the maximisation of shareholder value.

TAX CHARGE AND CASH TAX COST \$ MILLION



Financial Review continued

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risks, and has therefore adopted a tax strategy which is aimed at achieving the above objectives, thereby aligning it with the Group's long-term strategy:

- the Group's tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Chief Financial Officer who reports them to the Audit Committee on a regular basis;
- significant tax risks, implications arising from those risks and potential mitigating actions are considered by the Board when strategic decisions are being taken;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the interim and annual effective tax rate and the composition of the tax charge are reviewed by the Audit Committee as part of their remit in reviewing the interim and annual reports;
- the Group builds an equitable relationship with the tax authorities in the jurisdictions in which it operates;
- the Group takes appropriate advice from reputable professional firms;
- where disputes arise with government authorities with regard to the interpretation and application of tax legislation, the Group is committed to addressing the matter promptly and resolving the matter with the relevant tax authority in an open and constructive manner;
- the Group employs professional tax managers within the corporate head office and the operating businesses, and provides ongoing technical training to them.

TOTAL TAX CONTRIBUTION

During 2007, the Group paid \$1,107.5 million in taxes across the countries in which it has a presence. Company taxes, such as corporate income taxes, excess profits tax, royalties and employer taxes, comprised \$1,058.9 million of this total. In addition,

the Group indirectly contributed \$48.6 million in employee taxes and withholding taxes on interest and services, which the Group collected on behalf of government authorities and paid over to them.

FINANCIAL RISK MANAGEMENT BACKGROUND

The Board is committed to maintaining standards of financial risk management within the Group comparable with those of other international mining companies listed on the London Stock Exchange. During the year the Board, through the Audit Committee, has continued to build on the risk management structures implemented at the time of Listing.

Central to this, is the embedding of a risk management mindset across the organisation. Since Listing, the Group Risk Manager and centralised corporate functions, supported by the internal audit department, have made progress in educating key decision makers and instilling a risk focused approach when considering financial exposures.

During the year, the Group has looked to strengthen the budgeting, financial and management reporting functions and has successfully recruited strong local teams in these areas. The Group has also invested in automated information systems to streamline reporting processes between the corporate centre and operating subsidiaries. In addition, management's pre-close planning facilitated the smooth integration of Kazakhmys Gold and Kazakhmys Petroleum into the Group and has laid the foundations for more ambitious projects.

The other key focus for financial risk management has been the refinement of the Group's treasury function. As the Group's operations expand and diversify it is necessary to expand the sophistication of treasury activities to ensure the Group retains continued access to the most appropriate and cost effective sources of financing and to ensure that financial risks are identified and addressed.

TAXES PAID DIRECTLY TO GOVERNMENTS BY CATEGORY AND REGION

\$ million	Kazakhstan and Central Asia	UK	Germany	Total
Taxes paid				
Corporate income taxes (including excess profits tax)	834.9	14.7	–	849.6
Payroll taxes (employer's obligations)	45.6	1.9	7.0	54.5
Customs and stamp duties	33.4	2.3	–	35.7
Taxes on properties	17.3	–	0.4	17.7
Royalties and environmental payments	100.1	–	–	100.1
Miscellaneous taxes	1.3	–	–	1.3
	1,032.6	18.9	7.4	1,058.9
Taxes collected and remitted				
Withholding taxes on interest and services	3.0	–	–	3.0
Payroll taxes (employee's obligations)	22.9	5.8	16.9	45.6
	25.9	5.8	16.9	48.6
Total	1,058.5	24.7	24.3	1,107.5

BOARD RESERVED POWERS

The reserved powers set out the Board's sanction over treasury, investment and capital expenditure with defined limits of authority and procedure. These powers set the tone of the Board's commitment to embedding high standards of risk management throughout the business. The overall internal control environment and risk management programme is reviewed by the Audit Committee on behalf of the Board.

FINANCIAL RISKS

The principal financial risks arising from the Group's activities are those relating to commodity price risk, foreign currency risk, interest rate risk, counterparty credit risk and liquidity and funding risk. The Group does not engage in speculative treasury activity.

COMMODITY PRICE EXPOSURE

The Group's mining revenues and earnings are directly impacted by fluctuations in the prices of the commodities it produces. The Group's principal commodities (copper, zinc, gold and silver) are priced via reference to global metal exchanges, upon which pricing is derived from global demand and supply and influenced by macro economic considerations and speculative capital flows. The pricing of the Group's principal commodities may also include a pre-determined margin depending on the terms of sales contracts. The Group's other less significant revenue streams tend to be more susceptible to regional market conditions. Commodity prices, particularly those derived from global metal exchanges, may fluctuate significantly and may have a material impact on the Group's financial results.

Typically the Group does not hedge its mining commodity price exposure thus enabling investors to fully participate in price movements through the commodity cycle. The Group manages potential downside risk by focusing on maintaining its low cost producer status and also through the wider strategy of revenue diversification. Management closely monitors the impacts fluctuations in commodity prices have on the business and uses conservative pricing assumptions and sensitivity analysis for its forecasting and investment appraisals.

MKM is exposed to fluctuations in the price of the metal content of its products to the extent that raw metal purchases price at different dates from its finished goods metal sales. MKM uses the natural hedge provided by the back-to-back pricing of purchases and sales on its ongoing operations to manage this pricing exposure. Where there are temporary mismatches in volumes, commodity futures are used on a limited basis to ensure MKM's economic position is not materially impacted by metal price movements.

In limited circumstances where it is not possible to structure inter-group commodity transactions on back-to-back pricing terms, commodity futures may be used to reduce the Group's economic exposure.

FOREIGN CURRENCY RISK

The presentational currency of the Group is the US dollar, consistent with the pricing currency of the majority of the Group's revenue. Where possible, the Group, excluding MKM, attempts to conduct its business, maintain its monetary assets and seek to source corporate debt capital in US dollars so as to minimise its exposure to other currencies. The Group retains surplus cash balances in US dollars for capital expenditure, acquisitions and returns to shareholders. Working capital balances are maintained in a mix of US dollars and local currencies depending on short-term requirements of the business.

Whilst there is a strong correlation between many mining input costs and the US dollar, a significant portion of the mining business' operating costs are denominated in local currencies, particularly the Kazakhstan tenge and to a lesser extent the Russian rouble. Rates of exchange for these currencies relative to the US dollar could fluctuate significantly and may materially impact on the profitability of the underlying operations. This is a long-term exposure for the mining business arising from the geographic location of the assets and is managed through a continual focus on cost control, and where possible developing local currency revenue streams to provide a natural hedge. In circumstances where there is deemed to be a significant short-term concentration of local currency risk, the Group may look to hedge all or a portion of that exposure, subject to the availability of cost effective financial instruments and with due consideration to the credit worthiness of counterparties.

Financial Review continued

Due to its geographic location, MKM conducts its business in Euros and seeks to price its revenues in that currency, being also the currency in which the majority of its operational costs are denominated. The Group is exposed on its net investment in MKM to the extent that movements in the Euro:US dollar may make that investment more or less valuable. The Group seeks to mitigate that risk by raising MKM's debt financing in Euros, thus matching the negative exposure of the debt servicing against the positive exposure of the revenue.

From time to time, acquisitions, corporate actions and other significant transactions may expose the Group to movements in other currencies and the Group will consider hedging such exposures on a case by case basis.

INTEREST RATE RISK

The Group's cash management criteria emphasises security and liquidity hence the majority of cash investments are of short duration and responsive to movements in interest rates. Due to the limited range of money market investments available from financial institutions within Kazakhstan, the majority of the Group's cash within Kazakhstan is held in low interest on-demand accounts for short-term working capital purposes and is therefore not materially exposed to movements in interest rates. The balance of cash within Kazakhstan, which is typically invested for maturity periods in excess of one month, is held in fixed term deposits either in Kazakhstan tenge or US dollars and is therefore impacted by movements in interest rates. Surplus cash outside of Kazakhstan is principally held in short duration money market securities and is responsive to interest rate movements.

In recent years the Group has enjoyed a net cash position with only minimal external borrowings related to the financing of MKM. It is however likely that the Group will take on greater levels of debt in future as part of a longer term funding strategy as the Group grows through acquisitions and organic growth. The Group's current policy is to borrow and invest at floating rates of interest.

COUNTERPARTY CREDIT RISK

The Group is exposed to counterparty credit risk on balances and commitments due from third parties. The Group has adopted policies and procedures to control and monitor the distribution of these exposures to minimise the risk of loss in the event of non-performance by counterparties.

The Group's mining business protects its exposure to customer credit risk by maintaining strong business relationships with customers and through a combination of documentary credit instruments and requiring payment prior to delivery. MKM manages its customer credit risk with debtor insurance.

The Group's cash management policies emphasise security and liquidity of funds ahead of investment return. The Group's surplus funds held outside of Kazakhstan are predominantly invested in US dollars through the money market securities of investment grade international financial institutions. Maximum exposure and minimum credit rating limits have been set to manage the credit risk.

The Group must necessarily maintain a level of cash and deposits in Kazakhstan with local branches of international financial institutions and well established local Kazakhstan banks. The developing nature of the local banking industry means that the credit strength of local banks is comparatively lower than that available in more mature capital markets. Through their knowledge of Kazakhstan market conditions, management monitors the financial strength of the local banks and the local banking industry in general to ensure counterparty credit risk is minimised. During the year, the Group moved to minimise its exposure to the Kazakhstan banking environment and has staged a managed withdrawal of the Group's surplus funds from Kazakhstan to the United Kingdom. The Group now limits its local cash and deposits within Kazakhstan to working capital requirements only.

LIQUIDITY AND FUNDING RISK

The Group carefully manages its treasury activities to ensure that sufficient funding is always available to meet liabilities as they fall due. In recent years this has involved achieving a balance between liquidity and return on the Group's surplus cash investments. As the Group increases its level of debt financing, funding risk will be managed through a combination of liquid cash investments and undrawn committed credit facilities.

CRITICAL ACCOUNTING POLICIES SUMMARY

The Group's significant accounting policies are described in note 3 of the financial statements.

The application of these policies requires management to make estimates and exercise judgement. Set out in note 2(e) are key judgements which are likely to have the most significant effect on the amounts recognised in the financial statements. Information about significant areas of estimation uncertainty is also highlighted in that note.

The Directors believe that the following general accounting policies (as opposed to specific judgements and estimates set out in note 2(e)) are the critical policies which could have a significant impact on the financial statements.

BUSINESS ACQUISITIONS

The acquisitions made during the year, being the business acquisition of Kazakhmys Gold and the asset acquisition of the oil and gas exploration licence within Kazakhmys Petroleum, gives rise to estimates in relation to determining asset and liability fair values and the allocation of the excess purchase consideration over the fair value of the assets and liabilities, including the mining reserves and resources, being acquired. The estimate of reserves is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves as a result of factors such as production cost, recovery rates, grade of reserves or commodity prices could impact depreciation rates, asset carrying values and environmental and restoration provisions. Changes in assumptions over long-term commodity prices, market demand and supply and economic and regulatory climates could also impact on the carrying value of assets.

MINING PROPERTIES AND MINE DEVELOPMENT COSTS

The Group's mine-related assets are depreciated on a unit of production basis over the estimated economically recoverable reserves to which they relate, or over a shorter period prior to the depletion of the reserves having regard to the asset's physical life limitation. Changes in reserve estimates, which affect unit of production calculations, are accounted for prospectively.

The estimation process for recoverable reserves is complex and involves significant judgement. When determining reserves, estimates that were valid at the time of assessment may change when new information becomes available. Any changes could affect depreciation rates and asset carrying values.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The Group's cash-generating units, and if applicable, specific assets, are subject to an impairment review where an indicator of impairment arises. If there are indicators of impairment of the Group's cash-generating units or specific assets, then the recoverable value of an asset is compared to its carrying amount. If the carrying amount of the cash-generating unit or asset exceeds its recoverable amount, then an impairment provision is recognised to write down the carrying value of the cash-generating unit or the asset to its recoverable amount.

The assessment of whether an indicator of impairment has arisen can require considerable judgement taking account of future operational and financial plans, sales demand and the competitive environment. The calculation of the recoverable amount requires significant estimates and assumptions to be made about the calculation of future cash flows from a cash-generating unit or asset.

CONTINGENCIES

Material contingencies facing the Group are set out in note 34 of the financial statements. A contingent liability arises where:

- a past event has taken place for which the outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain events outside of the control of the Group; or
- a present obligation exists but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A provision is made when a loss to the Group is likely to crystallise. The assessment of the existence of a contingency and its likely outcome, particularly if it is considered that a provision might be necessary, involves significant judgement taking all relevant factors into account. As laws and regulations in Kazakhstan continue to evolve, for example, in the area of the environment and subsoil rights, uncertainties regarding contingencies are greater than typically found in countries with more developed legal and regulatory frameworks.

TAXATION

The determination of the Group's obligations for taxes for each reporting period requires the interpretation of tax legislation. Whilst management believes that its judgements are prudent and appropriate, significant differences in actual experience may materially affect the Group's future tax obligations.

The Group is subject to uncertainties relating to the determination of its tax liabilities. The tax system and tax legislation in Kazakhstan have been in force for only a relatively short time compared to more developed jurisdictions and are subject to frequent changes and varying interpretations. Management's interpretations of such legislation in applying it to business transactions may be challenged by the relevant tax authorities and, as a result, the Group may be assessed for additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may relate to the valuation of the taxable base for excess profits tax purposes and the application of transfer pricing policies.

Corporate Responsibility

OUR COMMITMENT TO CORPORATE RESPONSIBILITY

The trust and confidence of those with whom the Group deals, together with its reputation, are amongst its most important assets. Along with its commitment to competitiveness and performance, Kazakhmys recognises that the highest practicable standards of health, safety, environmental and community practices are vital to its success, and are a key responsibility of all employees.

Kazakhstan has a developing economy, which is moving at pace towards governance standards traditionally expected of companies that operate in more developed economies. As such, Kazakhmys is seen within the country as one of the leaders in corporate social responsibility, as was evidenced when it was asked to host a national event in Zhezkazgan by the President of Kazakhstan. The event's principal message was that business must develop a more generous approach towards social policy and contribute back to the community, in order to 'create an atmosphere of confidence and social stability'.

To develop a successful approach to corporate responsibility the Group is working to ensure that all its employees have a clear understanding of how they are expected to behave. This report describes our management approach towards corporate responsibility, and the nature of our key corporate responsibility impacts – our economic contribution, health, safety and environmental performance, support for our communities and the development of the skills and expertise of our employees.

CORPORATE RESPONSIBILITY AND BUSINESS STRATEGY

Our overall business objective is to create value for shareholders by building an effectively managed, regionally focused, diversified natural resources company.

To support this objective and help ensure effective and sustainable operational activities, it is essential for corporate responsibility objectives to be aligned to the Group's goals. This is achieved in a number of ways, including:

- training managers in the best international management practices in areas such as human resources and procurement management;
- maintaining the commitment and support of employees by ensuring standards of health and safety management are monitored and raised;
- developing our employees' potential;
- retaining the commitment and support of local communities by ensuring Kazakhmys' presence is a source of positive influence; and
- ensuring Kazakhmys conducts its business and interacts with its employees, investors, customers, suppliers, government agencies and the local communities in which it operates in a responsible manner.

MANAGING CORPORATE RESPONSIBILITY

The key elements of corporate responsibility management at Kazakhmys are:

- a Group Health, Safety and Environment Committee (GHSE) which comprises David Munro (chairman), Philip Aiken and James Rutland. The Chief Executive, and the Chief Executive Officer and other senior managers of Kazakhmys Corporation LLC are invited to attend Committee meetings, and it receives advice from independent safety and environmental experts. The Committee is responsible for setting standards, monitoring performance and providing guidance to operational management on health, safety and environment matters;
- an operational HSE committee chaired by the Chief Executive Officer of Kazakhmys Corporation LLC and comprising senior operational and HSE managers. It is responsible for reviewing incidents, recommending improvements in systems, and implementing risk reduction and training programmes;

The Group aims to pursue its business with integrity, respecting the different cultures and the dignity and rights of individuals in all countries in which it operates, recognising that the trust and confidence of those with whom it deals are amongst its most important assets



Corporate Responsibility continued

- Group safety and environmental policies and codes of conduct for procurement teams, combined with the Group's internal controls, offer the Company and its investors the reassurance that a practical system exists for identifying and managing corporate responsibility risks.

Kazakhmys' approach to managing corporate responsibility brings real benefits to the Group:

- it builds relationships. Kazakhmys benefits from the trust of employees, customers, suppliers and opinion formers, as well as local communities and government bodies. This impacts positively on our ability to conduct business;
- it improves reputation. A commitment to raising corporate responsibility performance helps the Group to attract and retain employees with the requisite skills and abilities. It also enhances the Group's reputation with other stakeholders; and
- it helps preserve value. By ensuring the Group identifies, evaluates and mitigates corporate responsibility risks that could damage Kazakhmys' reputation and financial performance.

OUR PLACE IN THE KAZAKHSTAN ECONOMY

To place Kazakhmys' operations within Kazakhstan into a proper context, it is necessary to describe the contribution of Kazakhmys to the Kazakhstan national economy. The following figures are based on 2006 data (the latest national figures available).

As a percentage of Kazakhstan's national gross domestic product, the total of wages and salaries, and corporate and income taxes represented 0.7%. Similarly, as a percentage of Kazakhstan's national investment, Kazakhmys' total capital expenditure (of both a business and social nature) represented 0.85%. The total workforce represented 0.83% of Kazakhstan's employed workforce.

If these figures were to be calculated at the local level of Kazakhmys' sites in Kazakhstan relative to each of their local communities, their importance would be significantly higher. Even though

Kazakhmys represents approximately 1% of the Kazakhstan economy, it recognises the importance of building on the leadership role it has taken in Kazakhstan on matters of corporate responsibility.

HEALTH AND SAFETY

The Board is committed to preventing accidents that represent a risk to people, the environment and Kazakhmys' facilities. It believes all work-related accidents are preventable and that all employees have a responsibility to achieve this goal.

The Group's objective is zero fatalities. The number of fatalities in 2007 was 23, which, whilst representing a reduction from 32 fatalities in 2006, remains totally unacceptable. Of these fatalities, 10 were due to moving machinery, four each to roof fall and electrocution, three to falling objects and one each to fall from height and road traffic. The cause of every fatal accident is investigated and reported to the GHSE Committee, and reviewed by the Fatal Accident Review Panel. In Kazakhstan, a State-appointed commission also investigates all fatal accidents.

To achieve the objective of zero fatalities requires the Group to make significant strides to improve its approach to health and safety management and to develop a safety focused culture. Group and local health and safety programmes, safety audits and formal accident investigations, together with continued investment in training and safety equipment systems form the key elements of our drive to continually raise standards and develop a safety culture throughout the Group.

The drive to deliver better safety performance was evidenced through a reduction in the number of fatalities arising from roof fall to four in 2007 (2006: 14). Regrettably, the number of fatalities as a result of moving machinery doubled in 2007 to 10, and our actions continue to focus on employee attitudes and behaviour across all aspects of our operations. To this end, three Fatal Risk Protocols were adopted

We are committed to the protection and safety of our people

during the year covering working at height, conveyor transport and underground mobile equipment. Further Fatal Risk Protocols will be adopted in 2008 to cover other areas of significant risk.

As part of health and safety management, work-related accident statistics are recorded. These are based on Kazakhstan regulatory reporting requirements, which are not in line with international safety measurement definitions. The Group continues to focus on achieving an internationally recognised industry measure as a basis for comparison with our peers and to report upon in external reports. Incidents of occupational diseases affecting employees are measured across the Group, including dust induced lung disease and vibration sickness.

During 2007 a number of actions and initiatives were undertaken across the Group to improve health and safety, including:

- a visit by senior management to a number of mines in South Africa owned by international mining companies to benchmark our approach to safety, resulting in the introduction of new electrical safety procedures and supervisors having greater responsibility for safety matters;
- introduction of protective equipment standards;
- issuing employees in Kazakhstan with a pocket guide to the Group Safety Policy, covering 16 key safety rules;
- development of a programme for all sites with an operational life exceeding five years to be certified to OHSAS 18001 by 2012;
- introduction of a confidential safety hotline.

Our key health and safety management actions for 2008 include:

- the opening of a training centre in Satpayev, Kazakhstan to train above and below ground employees on a range of operational issues, including health and safety;
- adoption of an occupational health policy;
- adoption of further Fatal Risk Protocols;

- certification of an initial 20 sites to OHSAS 18001 specification.

MANAGING ENVIRONMENTAL IMPACTS

Kazakhmys aims to carry out its activities in an environmentally friendly manner, focusing on the responsible use and management of water, energy and waste, minimising air pollution and undertaking appropriate land rehabilitation.

OUR ENVIRONMENTAL INDICATORS

Water is an important natural resource and its availability in many parts of the world has come under pressure as consumption continues to grow. Effective water management is critical to the long-term viability of a number of our operations, as they are located in environmentally sensitive areas. Our total water usage fell by around 10% to 179,500 megalitres in 2007 (2006: 198,954 megalitres) as a result of lower output from mining and smelting activities.

Kazakhmys recognises that climate change is a real international and community issue and commits itself to contribute to finding and implementing solutions to the challenges it poses. Our monitoring of emissions includes those of sulphur dioxide (SO₂), nitrogen oxides (NO_x), carbon dioxide (CO₂), arsenic, ash and dust.

One of our key environmental targets is the reduction of SO₂ emissions. In 2007, SO₂ emissions from our metallurgical operations were 706,591 tonnes (2006: 775,837 tonnes), which represents a 9% reduction since 2006. The building of a sulphuric acid plant at the Balkhash Complex will reduce the Complex's pollution discharge by six fold, as well as enabling it to produce approximately 1.2 million tonnes of sulphuric acid each year from the by-products of the smelting process. The ecological benefits of this project will be augmented by economic benefits for the Group provided by the sharp growth in demand for sulphuric acid in the region in recent years.

Corporate Responsibility continued

Kazakhmys recognises that greenhouse gas (GHG) emissions have as important an environmental impact as SO₂ emissions. GHG emissions result from energy combustion at our operations (including electricity and heat production), from our vehicles and through our strip coal mining processes. In 2007, CO₂ equivalent emissions decreased to 9.6 million tonnes (2006: 9.7 million tonnes).

Kazakhmys recognises the need to minimise disturbance of land as a result of its operations. Local legislation requires rehabilitation of site operations that have closed down. As a condition of its subsoil use contracts and licences, a provision is set aside for this purpose, which amounted to \$44 million as at 31 December 2007 (2006: \$28.4 million).

The generation of waste from the mining process, including tailings, waste rock and overburden, constitutes the most visibly intrusive aspect of our industry. Since 2006, Kazakhmys has increased the amount of waste rock backfilling in its underground mines. The Group continues to explore the available opportunities to beneficially reuse and recycle its waste. In 2007, Group operations generated 120 MT of waste (2006: 102 MT).

During 2007 a number of actions and initiatives were undertaken across the Group to reduce our environmental impact, including:

- with the support of the GHSE's external environmental adviser, a Group environmental policy was developed and distributed to all our sites. This policy takes account of the significant changes in Kazakhstan's environmental legislation introduced in 2007, with stricter penalties for breaches, and much higher fines for non-compliance;
- reviewing the role and structure of the environmental protection department in Kazakhstan, resulting in 14 environmental

management specialists being recruited to provide an enhanced level of service to operating units; and

- developing the existing Environmental Management System (EMS) to be consistent with ISO 14001, as well as with local regulations. As with our safety certification programme, it is planned for all sites with an operational life exceeding five years to be certified by 2012.

Our key environmental management actions for 2008 include:

- the development of a baseline environmental study, which will be used to formulate a five year environmental plan, with a view to ensuring the Group's businesses meet international standards for emissions and use of resources;
- the introduction of environmental training and awareness programmes to raise awareness of environmental issues in Kazakhstan;
- commissioning of the Balkhash sulphuric acid plant; and
- increasing our internal environmental research activities, including investigating the risks and potential hazards from leakages and spillages from sites that are in close proximity to residential housing.

SUPPORTING OUR COMMUNITIES

Kazakhmys is committed to supporting local communities and remaining sensitive to their needs. Kazakhmys believes it is able to benefit communities most by concentrating its efforts on projects which are closely related to its operations, allowing it to strengthen links with local communities.

Given the importance of our operations in the regions where we operate, it is fair to say that 'Our complexes are our communities'. Being seen to have a responsible social approach is important to maintaining ongoing positive relationships with these communities and their representatives.

We are committed to supporting our local communities

Kazakhmys works with local communities to ensure that they benefit from our presence on an enduring basis. In 2007, Kazakhmys spent a total of over \$100 million on social responsibility costs and investment activities, including infrastructure investments, support for local groups, provision for disadvantaged individuals and support for local government services.

Examples of the nature of activities undertaken are shown in the range of infrastructure investment activities undertaken by our Balkhash Complex for the benefit of its local community. These included:

- construction of churches and mosques;
- development of recreational centres;
- road construction and maintenance projects;
- construction of apartment accommodation;
- provision of hot water from its heating plants at subsidised rates;
- development of kindergartens;
- provision of sporting facilities and support for sporting clubs and organisations;
- provision and maintenance of dental and medical centres; and
- provision of health and spa resorts.

In addition to the significant infrastructure investments and support for organisations, Kazakhmys contributes to a number of local community activities, including artistic and cultural performances, and local events such as the 70th anniversary of Balkhash city.

As well as supporting sport and educational organisations, Kazakhmys provides support for individuals in their communities, such as providing financial assistance for medical treatment, and subsidising the costs of influenza immunisation and dental care. It also provides support for community bodies such as veterans' and disability groups.

DEVELOPING OUR EMPLOYEES

With a workforce of over 65,000 people, Kazakhmys is committed to improving the conditions in which employees operate and to optimise their performance.

Each employee has an employment agreement. Kazakhmys Corporation LLC also negotiates collective employment agreements, primarily covering social benefits, with representatives of its trade unions, which represent nearly all its employees.

Kazakhmys aims to ensure that all employees perform to their highest potential. To this end, employees have the opportunity to participate in training and development in a number of fields related to their role. For example, each year a number of employees are selected to attend courses at universities and mining schools in Kazakhstan, China and Russia. In addition, the Group provides a number of medical, dental, leisure and holiday facilities in Kazakhstan at either no cost or at subsidised rates to its employees, their families and pensioners.

Our key employee management actions for 2008 include:

- enhancing employee development programmes in Kazakhstan, including systems to better identify training needs;
- introducing a performance appraisal programme for employees in Kazakhstan;
- establishing a training school, which will be based on the principles of a corporate university; and
- introducing a number of internal communication initiatives to further develop and embed corporate culture and to share best practice across operations.

Board of Directors



01
VLADIMIR KIM (47)
CHAIRMAN SINCE 2005

02
OLEG NOVACHUK (37)
CHIEF EXECUTIVE SINCE
15 MARCH 2007

03
DAVID MUNRO (52)
STRATEGY DIRECTOR SINCE 2006

04
VLADIMIR NI (75)
NON-EXECUTIVE DIRECTOR
SINCE 2005

05
JAMES RUTLAND (63)
NON-EXECUTIVE DIRECTOR
SINCE 2005

Vladimir Kim joined the Group in 1995 when he was appointed Managing Director and Chief Executive Officer of Zhezkazgantsvetmet JSC. He was elected chairman of the board of directors of that company in December 2000. He is chairman of the Nomination Committee.

Joined the Group in 2001. Appointed Chief Executive in March 2007, having been Finance Director since September 2005. Formerly Vice President of Financial Projects for Kazakhmys Corporation LLC and the Financial Adviser to the President of Kazakhmys Corporation LLC, and chairman of the board of directors of Kazprombank JSC.

Appointed Strategy Director in October 2006, having been a non-executive Director since September 2005. He is currently a non-executive director of Lonmin Plc and was formerly Chief Executive of RMC Group plc, Chief Development Officer of BHP Billiton plc and an executive director of Billiton plc. He is chairman of the Group Health, Safety and Environment Committee.

Chairman of the board of directors of Kazakhmys Corporation LLC since January 2006, having previously been Vice Chairman. A director of HOZU Corporation LLC.

Formerly Finance Director of Energy Africa Limited, having previously held a number of positions in Investors in Industry plc, and with James Capel's corporate finance group and Hongkong Bank's resource lending group in London. He is the Senior Independent Director, chairman of the Audit Committee and a member of the Group Health, Safety and Environment Committee.

01	02	05	06
03	04	07	08



06
LORD RENWICK OF CLIFTON,
KCMG (70)
NON-EXECUTIVE DIRECTOR
SINCE 2005

Vice Chairman, Investment Banking of JPMorgan Europe and Vice Chairman of JPMorgan Cazenove. Serves on the boards of Compagnie Financière Richemont AG, Fluor Corporation and SABMiller plc. Formerly British Ambassador to the United States and to South Africa, and a non-executive director of BHP Billiton plc, British Airways plc and Liberty International plc. He is chairman of the Remuneration Committee and a member of the Nomination Committee.

07
PHILIP AIKEN (59)
NON-EXECUTIVE DIRECTOR
SINCE 2006

Chairman of Robert Walters plc and a senior advisor to Macquarie Capital Advisers. Formerly President, UK of BHP Billiton plc, having previously been Group President of BHP Billiton's Energy business, President, BHP Billiton Petroleum, an executive director of BTR plc and held a number of senior positions in BOC Group plc. He is a member of the Audit, Group Health, Safety and Environment, and Remuneration Committees.

08
SIMON HEALE (54)
NON-EXECUTIVE DIRECTOR
SINCE 1 JANUARY 2007

A non-executive director of The Morgan Crucible Company plc, Panmure Gordon & Co plc, Marex Group Limited and PZ Cussons plc, and Chief Executive of the China Now Festival. Formerly Chief Executive of The London Metal Exchange, Chief Operating Officer of Jardine Fleming Ltd and Deputy Managing Director of Cathay Pacific Airways. He is a member of the Audit, Nomination and Remuneration Committees.

SENIOR MANAGEMENT – NOT PICTURED
MATTHEW HIRD (35)
CHIEF FINANCIAL OFFICER
SINCE 15 MARCH 2007

Joined the Group in 2005 as Group Financial Controller and Company Secretary. Formerly senior manager with Deloitte & Touche's global mining team, and Group Reporting Manager and Company Secretary of Vedanta Resources plc.

EDUARD OGAY (38)
CHIEF EXECUTIVE OFFICER
OF KAZAKHMYNS CORPORATION LLC

Joined the Group in 2001 as Director of Marketing and International Relations. Appointed Director of Corporate Development in 2005 prior to becoming Chief Executive Officer of Kazakhmys Corporation LLC in August 2006.

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Directors' Report

The Directors have pleasure in presenting their Annual Report, together with the audited Financial Statements, for the year ended 31 December 2007.

A perspective of the Group is given on pages 1 to 3, and details of the Company's subsidiary undertakings principally affecting the profits or net assets of the Group are indicated in note 48 on page 123. Analyses of revenues, gross profit and financial performance of the Group are shown in note 5 on pages 81 to 90. These pages, together with the sections of the Annual Report referred to below under Business Review and Other Information, form part of this Directors' Report.

The Corporate Governance Report on pages 54 to 57 is submitted by the Board, and the Directors' Remuneration Report on pages 58 to 62 to shareholders by the Remuneration Committee on behalf of the Board. A statement of the responsibilities of the Directors for the preparation of the financial statements is given on page 63.

BUSINESS REVIEW

The review of the Group's principal activities, future developments, post balance sheet events and financial performance during the year, details of key performance indicators and the description of the principal risks and uncertainties facing the Group, comprises pages 1 to 3 and the Business Review of this Annual Report.

OTHER INFORMATION

Other information relevant to the Directors' Report may be found in the following sections of this Annual Report and Accounts:

Information	Location in Annual Report and Accounts
Amendment of memorandum and articles of association	Shareholder Information
Combined Code compliance statement	Corporate Governance Report
Directors' appointment and powers	Shareholder Information
Directors' interests in shares	Directors' Remuneration Report
Names of Directors	Board of Directors
Share capital – structure, voting and other rights	Shareholder Information
Statement of Directors' Responsibilities	Page 63

DIVIDEND

The Board recommends the payment of a final dividend of 27.4 US cents per ordinary share (2006: 25.7 US cents). If approved, the dividend will be paid on 8 May 2008 to shareholders on the register at the close of business on 4 April 2008. An interim dividend of 13.6 US cents per share and a special dividend of 50.0 US cents per share were paid on 5 October 2007. Shareholders may elect to receive their dividends in UK pounds sterling by completing a currency election form available from the Company's registrar.

SHARE CAPITAL

The Company's authorised share capital as at 31 December 2007 was £150 million comprising 750 million ordinary shares of 20 pence each. The Company's issued share capital as at that date was 460,123,288 ordinary shares of 20 pence, each credited as fully paid. Further details of the Company's authorised and issued share capital are shown in note 25 on pages 104 and 105.

PURCHASE OF OWN SHARES

The Company was authorised by shareholders at the 2007 Annual General Meeting to purchase its own shares in the market up to a maximum of 10% of the issued share capital. After taking into account the profitability of the business and underlying growth in earnings of the Group, together with its cash flows and growth requirements, the Company announced on 4 September 2007 a share buy-back programme of up to \$400 million. During the year ended 31 December 2007, 9,910,577 ordinary shares of 20 pence each of the Company (representing 2.12% of the ordinary shares in issue on 1 January 2007) were purchased and cancelled for a consideration of £130,590,341 (\$270.3 million) including expenses. A further 5,169,000 ordinary shares of 20 pence each (representing 1.12% of the ordinary shares in issue on 1 January 2008) have been purchased for a consideration of £61,708,631 (\$119.8 million), including expenses, and cancelled since the end of the financial period to the date of this report. This authority will expire at the conclusion of the 2008 Annual General Meeting and a resolution to renew it for a further year will be proposed.

MAJOR SHAREHOLDINGS

As at 4 March 2008, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the FSA of the following interests in its ordinary share capital:

Name of holder	Number of ordinary shares of 20 pence each held	Percentage of total ordinary share capital held as at 4 March 2008
Cuprum Holding B.V.	135,944,325	29.88
Tobermory Holding Europe B.V.	50,735,450	11.15
AXA S.A.	35,932,548	7.90
Harper Finance Limited	29,706,901	6.53
Perry Partners S.A.	21,503,813	4.73
Standard Life Investments Limited	13,901,006	3.06

- 1 Vladimir Kim holds a 100% interest in Cuprum Holding B.V., Tobermory Holding Europe B.V. and Perry Partners S.A.
- 2 Oleg Novachuk holds a 100% interest in Harper Finance Limited.

RELATIONSHIP AGREEMENT

In September 2005, Cuprum Holding B.V., Perry Partners S.A., Harper Finance Limited (together the Major Shareholders), Vladimir Kim, Yong Keu Cha and Oleg Novachuk (together the Beneficial Owners) and the Company entered into a relationship agreement to regulate the ongoing relationship between them. The principal purpose of the relationship agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole. Under the terms of the agreement, it shall terminate in respect of a Beneficial Owner if such Beneficial Owner ceases to control at least a shareholding of 10% of the Company. As of 14 December 2006 and 2 April 2007, Yong Keu Cha and Oleg Novachuk, respectively, ceased to be bound by the terms of the relationship agreement, their holdings having fallen below 10%.

Directors' Report continued

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at 12.15 pm on Wednesday 30 April 2008 at Claridge's (the Ballroom entrance), Brook Street, Mayfair, London W1K 4HR. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of Meeting which accompanies this Annual Report and Accounts.

The total votes cast on a poll by shareholders for or against or withheld will be published on the Company's website (www.kazakhmys.com) shortly after the conclusion of the Annual General Meeting.

DIRECTORS

The Directors of the Company during the year were as shown on pages 48 and 49. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 62.

Apart from Vladimir Kim's interest in a call option given to the Company in March 2006 over a 25% stake in ENRC Kazakhstan Holding B.V. representing an 18.8% economic interest in ENRC PLC, held by a company wholly owned by him, which the Company exercised in October 2007 (see note 35 on page 118), during the year no Director had any interest in any shares or debentures of the Company's subsidiaries, or any material interests in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

In accordance with the Company's articles of association, Vladimir Kim, Oleg Novachuk, Vladimir Ni and Lord Renwick will retire as Directors at the Annual General Meeting and, being eligible, will offer themselves for re-election. As explained in the service agreement paragraph on page 60, Vladimir Kim and Oleg Novachuk have service agreements terminable by the Company or the Director on three months notice. Neither Vladimir Ni nor Lord Renwick have a service agreement.

DIRECTORS' INDEMNITY AND INSURANCE

Kazakhmys maintains liability insurance for its Directors and officers. The Company has also granted indemnities to each of the Directors, Matthew Hird (Chief Financial Officer) and the Company Secretary to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a director (or officer or company secretary as the case may be) of the Company or any of its associated companies.

The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors on an ongoing basis.

EMPLOYEES

The Group continues to develop and maintain policies for all aspects of employment, the overall objective being to optimise performance through recruitment and retention of effective, well motivated people in every sector of its business.

Each operating company has responsibility for designing human resources policies appropriate to their country of origin which attract, retain and motivate the highest quality of staff. To this end, Kazakhmys Corporation LLC and Kazakhmys Gold employees have individual employment agreements which cover, among other matters, base remuneration. These businesses also negotiate collective employment agreements, which primarily cover social benefits, with representatives of its union that represent substantially all of the employees. In Germany, employees are represented by a work's council and approximately 56% of employees are members of the IG Metall union. The Group attaches considerable importance to keeping its employees informed on matters affecting their jobs and the progress of the business. Although there are various information channels the primary one is face-to-face communication between managers and their staff.

The Group contributes to defined contribution pension schemes in Germany and the UK and the Group's pension scheme in Kazakhstan is utilised by its employees to contribute the required amounts under Kazakhstan law. During the year, the Company introduced two new share plans for below Board senior executives, details of which are set out on page 59.

Kazakhmys is committed to promoting diversity across the Group, both in recognition of the inherent value of diversity and to ensure Kazakhmys' businesses reflect the diversity of the local population. To this end, Kazakhmys is committed to providing equal opportunity in recruitment, promotion, career development, training and reward to all employees without discrimination and continues to be supportive of the employment of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment.

Further comment on employment issues is set out on page 47.

CREDITOR PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, provided that all relevant trading terms and conditions have been complied with.

The average creditor payment period for the year ended 31 December 2007 for the Company was 9.4 days (2006: 6.4 days).

MARKET VALUE OF LAND AND BUILDINGS

Land is carried in the balance sheet at deemed cost resulting from a revaluation, which was undertaken as at 1 January 2002 as part of the Group's transition to reporting under IFRS. Land and buildings acquired since 1 January 2002 are recorded at cost. It is not practical to estimate the market value of land, buildings and mineral reserves and resources at each balance sheet date.

POLITICAL AND CHARITABLE DONATIONS

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year. The Group made charitable donations of \$4.8 million during the year (2006: \$4.4 million). Further details of payments for charitable purposes made during the year are given on page 47.

POLICY ON DERIVATIVES AND FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign currency, credit, commodity, price, liquidity and interest rate risks can be found in note 33 on page 110.

GOING CONCERN

After reviewing the Group's financial resources, including borrowing facilities, and projected cash flows, particularly those relating to major investments, including capital projects and acquisitions, the Board has a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements.

AUDIT INFORMATION

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director has taken all steps that they ought to have reasonably taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed. Ernst & Young LLP have indicated their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2008 Annual General Meeting.

By order of the Board

ROBERT WELCH
COMPANY SECRETARY
5 March 2008

Corporate Governance Report

COMBINED CODE COMPLIANCE

The Board is committed to high standards of corporate governance in its management of the affairs of the Group and in its accountability to shareholders.

This section of the Annual Report has been prepared in accordance with the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the 'Combined Code').

The Company's policies on corporate direction and control ensure that the Company applies all of the principles of good governance contained in the Combined Code in the organisational structure it has adopted to conduct its business, its remuneration policy, its relations with its shareholders, and the procedures adhered to in its financial reporting, internal control and assurance processes. The Company complies fully with the provisions of the Combined Code, except that the Chairman was not independent at the time of his appointment.

BOARD STRUCTURE

The Board currently consists of eight directors, all of whom served throughout the financial year. Including the Chairman, there are three executive Directors and five non-executive Directors; this balance ensures that no individual or small group of Directors dominates the decision making process and the interests of the minority shareholders are protected. Biographies of all Directors are set out on pages 48 and 49.

Yong Keu Cha stood down as a Director and Chief Executive on 31 December 2006. On 15 March 2007, he was succeeded as Chief Executive by Oleg Novachuk, previously Finance Director. Matthew Hird, previously Group Financial Controller and Company Secretary, was appointed as Chief Financial Officer on 15 March 2007, and Robert Welch succeeded Matthew Hird as Company Secretary on the same date.

It is Kazakhmys' policy that at least half the Board should be independent non-executive Directors. Other than Vladimir Ni, the Board considers each of its current non-executive Directors to be independent in character and judgement. Following his appointment as chairman of Kazakhmys Corporation LLC, the Company's main operating company in Kazakhstan, with effect from 1 January 2006, Vladimir Ni is not considered by the Board to be independent.

The independent non-executive Directors are:

PHILIP AIKEN

Chairman of Robert Walters plc and a senior advisor to Macquarie Capital Advisers. Formerly President, UK of BHP Billiton plc, having previously been Group President of BHP Billiton's Energy business, President, BHP Billiton Petroleum, an executive director of BTR plc and held a number of senior positions in BOC Group plc.

SIMON HEALE

A non-executive director of The Morgan Crucible Company plc, Panmure Gordon & Co plc, Marex Group Limited and PZ Cussons plc, and Chief Executive of the China Now Festival. Formerly Chief Executive of The London Metal Exchange, Chief Operating Officer of Jardine Fleming Ltd and Deputy Managing Director of Cathay Pacific Airways.

LORD RENWICK OF CLIFTON, KCMG

Serves on the boards of Compagnie Financière Richemont AG, Fluor Corporation and SABMiller plc. Formerly British

Ambassador to the United States and to South Africa, and a non-executive director of BHP Billiton plc, British Airways plc and Liberty International plc. Vice Chairman of JPMorgan Cazenove, who are brokers and financial advisers to the Company; he has no involvement in the provision of broking or financial services to the Company.

JAMES RUTLAND

Formerly Finance Director of Energy Africa Limited, having previously held a number of positions in Investors in Industry plc, and with James Capel's corporate finance group and Hongkong Bank's resource lending group in London.

The Chairman was not independent at the time of his appointment by virtue of his significant shareholding in the Company. Vladimir Kim joined the Group in 1995 and has made a major contribution to its development into an international FTSE 100 company. The Board is unanimously of the opinion that his continued involvement in an executive capacity is vitally important to the success of the Group.

The non-executive Directors have held informal discussions with the Chairman from time-to-time without executive Directors being present.

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

The Chairman is responsible for the strategic direction of the Group, overseeing the responsibilities of management, leadership of the Board and ensuring effective communication with shareholders. As part of the evaluation of the performance of the Chairman, the Board remains satisfied that the Chairman is able to fulfil all of the commitments required of his role.

Oleg Novachuk, following his appointment as Chief Executive on 15 March 2007, is responsible for the day-to-day management of the Group and the implementation of the strategy approved by the Board.

NON-EXECUTIVE DIRECTORS AND SENIOR INDEPENDENT DIRECTOR

The non-executive Directors provide a strong independent element on the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the proper stewardship of the Company's affairs, the non-executive Directors fulfil a vital role in corporate accountability. They have a particular responsibility to examine critically the strategies proposed by the executive Directors, scrutinise the performance of management in meeting agreed goals and objectives, and play a leading role in the functioning of the main Board committees. Between them, the current non-executive Directors bring experience, expertise and independent judgement from a variety of business sectors and public life.

James Rutland, the Senior Independent Director will, together with the other non-executive Directors, be available to discuss matters of concern with shareholders whenever necessary. He also leads the annual evaluation by the non-executive Directors of the Chairman's performance.

INDUCTION, TRAINING AND INFORMATION

Following appointment to the Board, all new Directors receive a comprehensive and structured induction tailored to their

individual requirements. The induction programme, which is arranged by the Company Secretary, includes visits to the Group's businesses and meetings with senior managers and advisers as appropriate. This facilitates their understanding of the Group, the key drivers of business performance, the role of the Board and its committees, the Company's corporate governance practices and procedures, and provides them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

To assist Directors in the performance of their duties, there are procedures to provide them with appropriate and timely information, including information between meetings about developments in the Group's business and financial performance, so that they can maintain full and effective control of strategic, financial, operational, compliance and governance issues. Directors also have access to the advice and services of the Company Secretary, and, in appropriate circumstances, may obtain independent professional advice at the Company's expense.

Where appropriate, additional training and updates on particular issues are arranged. For example, over the last 12 months, members of the Board have made visits to the Group's operations and have received specific briefings by management on the implications of new legislation in the United Kingdom and Kazakhstan.

To ensure the Board as a whole remains fully informed of the views of shareholders, the Board receives regular reports on shareholder sentiment from the Chief Financial Officer and Head of Corporate Communications. Although not part of their induction programme, all non-executive Directors have a standing invitation to attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the Annual General Meeting.

PERFORMANCE EVALUATION

A Board performance evaluation process was undertaken in late 2007, with the results being presented to the February 2008 Board meeting. The process entailed the completion of detailed questionnaires on the performance on the Board, its committees and its executive and non-executive Directors by each Director and the preparation of a composite report. No fundamental issues or training needs that require addressing were identified and the Board is also satisfied that each of the current non-executive Directors had sufficient time and commitment to contribute effectively to the Board and its committees.

RE-ELECTION OF DIRECTORS

New Directors appointed by the Board must submit themselves for re-election by shareholders at the annual general meeting following their appointment. Thereafter, the Company's articles of association require that all Directors stand for re-election at least every three years.

BOARD AND COMMITTEE RESPONSIBILITIES/MEMBERSHIPS THE BOARD

The Board is responsible for approving Group strategy, reviewing trading performance, ensuring adequate funding, examining major investments, ensuring the appropriate allocation of financial resources and monitoring the performance of the executive team. It is also responsible for providing leadership and support to the executive management team in creating and sustaining shareholder value through the management of the Group's business, together with delivering expected shareholder returns. The Board has a formal schedule of matters specifically reserved

for its decisions and has four principal committees to deal with specific aspects of the Group's affairs. In addition, the Company Secretary has a specific responsibility to the Group as a whole for its sound governance and for guidance to the Board in the responsible and effective execution of its tasks.

The four principal committees of the Board are the Audit, Group Health, Safety and Environment, Nomination and Remuneration Committees. The terms of reference of each committee are available on the Company's website (www.kazakhmys.com) and on request from the Company Secretary at the Company's registered office. The terms of reference of each committee are reviewed annually. Each committee reports on its activities to the next Board meeting following its meeting.

AUDIT COMMITTEE

The role of the Committee is to review and monitor the integrity of financial reporting by the Company, to review the Group's internal control and risk management systems, to monitor the effectiveness of the Group's internal audit function and to oversee the relationship with the external auditors.

The Audit Committee, which met on five occasions during the year, consists of James Rutland (chairman), Philip Aiken and Simon Heale. Currently both James Rutland and Simon Heale have recent and relevant financial experience; their biographies are set out on pages 48 and 49. The Chief Executive, Chief Financial Officer, Company Secretary, Head of Internal Audit and external auditors are invited to attend Committee meetings.

At the end of each meeting the Committee normally meets separately with the external auditors and Head of Internal Audit, without management present, to facilitate the discussion of any matter relating to its remit and any issues arising from audits. Arrangements have also been adopted to ensure that the Head of Internal Audit has direct access to the Committee chairman and is accountable to the Committee.

During and in respect of the year, the Committee has undertaken the following activities to facilitate the discharge of its responsibilities:

Financial reporting: The Committee reviewed the interim report, the 2007 annual report and accounts, and the interim and preliminary announcements made to the London Stock Exchange. As part of the reviews, it reviewed accounting policies, estimates and judgements that had been applied in preparing the reports and financial statements and the transparency and clarity of the disclosures within them. It also received reports from management and the external auditors on accounting, tax and legal issues.

Internal control: The Committee received reports from management on the implementation of enhanced financial reporting procedures and controls, and IT systems. It also evaluated the design and effectiveness of the Group's system of internal control as set out on pages 56 and 57.

Risk management: The Committee reviewed the effectiveness of the Group risk management framework as described on page 57 and reports arising out of the risk management process. It also monitored the Group's insurance arrangements.

Internal audit: The Committee approved the internal audit plan and reviewed reports from the internal audit department, including details of the adequacy of management's actions.

Corporate Governance Report continued

External audit:

The Committee:

- approved the terms of engagement of the external auditors, the fees paid to them, and the plan of the work carried out by them;
- reviewed policies on the independence of the external auditor and the provision of non-audit services;
- assessed the independence and objectivity of the external auditors and in this process reviewed a report from the external auditors on all relationships that might reasonably have a bearing on their independence and the audit partner and staff's objectivity, and the related safeguards and procedures;
- received reports on the findings of the external auditors during their interim review and annual audit and reviewed the recommendations made to management by the external auditors and management's responses;
- assessed the effectiveness of the external auditors; and
- considered its recommendation as to the re-appointment of the external auditors.

Whistleblowing: The Committee considered arrangements by which staff may, in confidence, raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters.

The Committee also receives reports on developments in financial reporting practices, legislative and regulatory changes and other relevant matters so as to keep abreast of current thinking on public reporting and internal controls.

The Committee's policy on the provision of non-audit services by the external auditors and their associates includes the identification of certain non-audit services which the external auditors are prohibited from providing and a process through which other non-audit services are approved. All non-audit services require the agreement of the Chief Financial Officer before they can be undertaken, with certain engagements over £50,000 only being awarded to the external auditor after a competitive tender process. The non-audit services of the external auditors will only be used where the Group benefits in a cost-effective manner and the external auditors maintain the necessary degree of independence and objectivity. Details of all non-audit services are reported to the Audit Committee twice a year. The policy will be kept under review and may be amended from time to time as necessary.

REMUNERATION COMMITTEE

Details of the Committee's main functions, and its current policies for Board Directors, are given in the Directors' Remuneration Report commencing on page 58. The Committee met four times during the year. The members of the Committee are Lord Renwick (chairman), Philip Aiken and Simon Heale.

NOMINATION COMMITTEE

The Committee, which provides a formal and transparent procedure for the appointment of new Directors to the Board, generally consults external consultants and advisers on prospective Board appointments. The Committee keeps under review the planned and progressive refreshing of the Board and its committees, assesses the development of Directors including induction, training and succession planning, considering the specific experience and skill needed for an appointment. It recommends to the Board the appointment of all Directors having regard to the balance and structure of the Board and the required blend of skills and experience.

The Committee consists of Vladimir Kim (chairman), Lord Renwick and Simon Heale. In accordance with the requirements of the Combined Code the majority of the members are independent non-executive Directors and the Group Chairman is chairman of the Committee.

GROUP HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The principal tasks of the Committee are to evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety and environment risks within the Group, to recommend to the Board the Group's policies on health, safety and environment matters and to ensure that an effective system of health, safety and environment standards, procedures and practices is in place at each of the Group's operational sites.

The Committee, which met three times during the year, consists of David Munro (chairman), James Rutland and Philip Aiken. During the year the Committee appointed an external health and safety specialist and an external environmental specialist with appropriate technical experience to provide advice to the Committee.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

All Directors are expected to attend each Board meeting and each meeting of the committees of which they are members, unless there are exceptional circumstances which prevent them from doing so.

The attendance of Directors at scheduled meetings of the Board and of Board committees of which they were members during 2007 is shown below.

Current Directors	Board	Audit	Remuneration	Nomination	GHSE
Vladimir Kim	5/6			1/2	
Oleg Novachuk	6/6				
Philip Aiken	6/6	5/5	3/4		3/3
Simon Heale	6/6	5/5	4/4	2/2	
David Munro	6/6				3/3
Vladimir Ni	5/6				
Lord Renwick	6/6		4/4	2/2	
James Rutland	6/6	5/5			3/3

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system is designed to identify, evaluate and manage the significant risks associated with the Group's achievement of its business objectives with a view to safeguarding shareholders' investments and the Group's assets. This system is designed to meet the Company's particular needs and the risks to which it is exposed, and is designed to manage rather than eliminate risk. Because of the limitations inherent in any system of internal control, such a system can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board confirms that, throughout the year ended 31 December 2007 and up to the date of approval of this Annual Report and Accounts, there have been processes in place for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance.

The Board has adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. To identify and manage key risks, it has established a number of Group-wide procedures, policies and standards, has set up a framework for reporting matters of significance, has authorised the Audit Committee to review the Group's strategy with regard to risk and the effectiveness of the Group's internal financial reporting, internal controls and risk management systems, has developed a system of regular reports from management and has reserved specific key matters for its decision. The process is designed to provide assurance by way of cumulative assessment.

Key elements of the Group's system of internal control which have operated throughout the year are:

- group financial, operating and administrative policies and procedures which incorporate statements of required behaviour;
- continuous review of operating performance of the Group's businesses;
- monitoring by the Board of a comprehensive reporting system, including monthly results, annual budgets and medium-term forecasts;
- well defined procedures for appraisal, approval, control and review of major capital projects, including acquisitions;
- an established methodology for ranking the level of risk in each of its business operations and the significant risk issues associated therewith;
- implementation of appropriate strategies to deal with significant risks, including measures such as insurance and use of external specialists;
- a centrally co-ordinated internal audit programme to support the Board in its role of ensuring a sound control environment;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal control; and
- regular reports to the Board and Group Health, Safety and Environment Committee on health, safety and environmental matters.

The Board, in conjunction with management, has agreed a number of activities to further develop the internal control environment. Progress on these initiatives, alongside the development of embedded risk management and assurance processes, is being made. Details of initiatives in the area of financial risk management can be found in the Business Review commencing on page 38, and initiatives in the area of health, safety and the environment can be found in the Corporate Responsibility Report on pages 42 to 47.

Although significant progress has been made since Listing to improve the Group's system of internal control, further progress is required to achieve the levels of internal control typically found in other UK companies of the size and complexity of Kazakhmys.

All acquired businesses will be brought within the Group's system of internal control as soon as practicable and in any event within 12 months of acquisition.

INTERNAL AUDIT

Internal Audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with legal and regulatory requirements. It provides objective assurance on risk and controls to senior management, the Audit Committee and the Board.

Internal Audit's work is focused on areas of greatest risk to the Group and its programme of work is approved by the Audit Committee. Based on the approved audit plan, Internal Audit has undertaken a number of audits across operations and functions to facilitate improvement of the Group's internal controls. The Head of Internal Audit reports regularly to the Audit Committee.

Whilst good progress has been made in developing an internal audit programme, and Internal Audit continuously works on improvement of its audit programmes and techniques, further progress needs to be made to ensure it meets the standards typically found in other UK-listed companies.

MANAGEMENT OF RISK

The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework.

The Board has approved a formalised but straightforward Group risk management framework. This framework is designed to provide assurance that risks are being identified and managed in a manner appropriate to the Group's circumstances. It comprises risk identification and assessment processes, together with risk response and monitoring activities. The Group Risk Manager co-ordinates the risk assessment and identification activities, and facilitates the development of appropriate responses to identified risks.

Whilst good progress has been made in the development of a robust risk management system and there is ongoing work to improve and enhance it, further steps need to be taken to ensure it is comparable with other international listed mining companies.

SHAREHOLDER COMMUNICATIONS

The Board recognises the importance of good communications with shareholders. The Chief Executive and the Chief Financial Officer are closely involved in investor relations and the Head of Corporate Communications has day-to-day responsibility for such matters. In addition to the annual report and accounts which is available to all shareholders either in hard copy or electronically, there is a regular dialogue with institutional shareholders, who also from time-to-time visit the Group's operations.

The Company issues quarterly production updates and will issue interim management statements to the market, and these together with copies of institutional analyst presentations each half year, the Group's preliminary and interim results and all announcements issued to the London Stock Exchange are posted on the Company's website (www.kazakhmys.com).

All shareholders are invited to attend the Annual General Meeting at which there is an opportunity for individual shareholders to question the Chairman and, through him, the chairmen of the principal Board committees.

Directors' Remuneration Report

INTRODUCTION

This report has been prepared by the Remuneration Committee in accordance with schedule 7A of the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002) and to meet the relevant requirements of the Listing Rules of the UK Listing Authority.

The Companies Act 1985 requires the auditors to report to the Company's shareholders on the audited information in this report and to state whether, in their opinion, those parts of the report have been prepared in accordance with the Companies Act 1985. The auditors' opinion is set out on page 64. Matters relating to compliance with the Combined Code are contained in the Corporate Governance Report on pages 54 to 57 of this Annual Report.

Decisions and recommendations of the Committee are reported to the Board, and this report is submitted to shareholders by the Committee on behalf of the Board.

As required by the Companies Act 1985, this report will be subject to a shareholder vote at the Company's Annual General Meeting to be held on 30 April 2008.

REMUNERATION COMMITTEE

The Remuneration Committee members are Lord Renwick (chairman), Philip Aiken and Simon Heale all of whom are independent non-executive Directors; they all bring a wide range of experience from other organisations and their biographies are shown on pages 48 and 49.

The Company Secretary acts as secretary to the Committee and the Chairman and Chief Executive normally attend meetings, at the invitation of the Committee, to provide information and advice. No executive participated in any discussion relating to his own remuneration. The Committee also has access to advice on executive compensation and equity-based incentive schemes from New Bridge Street Consultants LLP (NBSC), an independent remuneration consultancy, who has been appointed with specific terms of reference directly by the Committee. NBSC also provides advice to the Company on remuneration matters for senior employees and equity-based incentives.

REMUNERATION COMMITTEE REMIT

The Remuneration Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of executive Directors and other senior managers. It also has responsibility for the design of share incentive plans operated by the Company, and for overseeing the administration of such plans, including deciding on the allocation and issue of shares to executives under long-term incentive and deferred share bonus plans.

The terms of reference of the Remuneration Committee are available on the Company's website (www.kazakhmys.com) or on request from the Company Secretary's department at the Company's registered office. The terms of engagement between the Company and NBSC are also available on request.

REMUNERATION POLICY

The Committee seeks to ensure that the Company's remuneration policies and practices facilitate the recruitment and motivation of high calibre personnel with the appropriate skills to implement the Group's business objectives, while also relating reward to performance and aligning the interests of executive Directors and senior executives with those of shareholders. It aims to follow best practice in relation to its remuneration policy and, in particular, complies with the Combined Code.

In constructing and reviewing remuneration packages, the emphasis is on rewarding Directors competitively for their contribution to the Company's performance and for enhancing value to shareholders, taking into account market comparisons and the competitive pressures in the mining sector. External comparisons, including annual assessments of the relevant senior executive remuneration market, look at comparable roles in similar organisations in terms of operations and market capitalisation.

The strategy for senior executive remuneration, in general terms, is to provide a balanced package around the relevant mid-market level for comparable mining companies, with a high proportion of total remuneration being awarded through performance-related elements. In addition to consideration of market data, when setting salaries, individual judgement is exercised by the Committee, having regard to an individual's experience and responsibilities.

The Committee strives to ensure that the remuneration policy provides a strong and demonstrable link between incentives and the Group's strategy, and sets a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances, and which motivates its senior executives and enables them to share in the long-term success of the Group. This framework enables senior executives to share in the success of the Group, without delivering excessive benefits. Remuneration arrangements and performance targets are reviewed on a regular basis to achieve these objectives.

EXECUTIVE DIRECTOR REMUNERATION POLICY

The Remuneration Committee has determined that those executive Directors who are major shareholders in the Company should not be eligible to participate in any share plans or other long-term incentive arrangements. For Vladimir Kim and Oleg Novachuk, who are both major shareholders, this recognises that they already have a very strong alignment with the success of the business, and will benefit directly from any uplift in the value of the business. David Munro intends to continue in his role for a further year until 1 October 2009, and does not participate in the Company's equity incentive schemes. In addition, the executive Directors are responsible for their own pension arrangements so that no part of their pension costs is borne by the Company. Their remuneration consists entirely of base salary and benefits in kind, and an annual bonus opportunity.

SENIOR EXECUTIVE REMUNERATION POLICY

During 2007, the Committee concluded its specific review of the remuneration policy for senior executives, which particularly focused on the introduction of share-based elements of remuneration for senior executives, excluding executive Directors. The outcome of the review is that the Committee has introduced two new share plans for below Board senior executives, the Kazakhmys Long Term Incentive Plan 2007 (LTIP) and the Kazakhmys Deferred Share Bonus Plan 2007 (DSBP). Selected senior executives will be eligible to participate depending on seniority. Both plans will be funded through the purchase of existing shares thereby avoiding any dilution of shareholders.

The main objective of the new structure is to provide a more balanced, performance-biased executive remuneration package which takes into account current best practice on corporate governance, fits with Kazakhmys' need to motivate its senior executives and enables them to share in the long-term success of the Group, without delivering excessive benefits.

KEY FEATURES OF SENIOR EXECUTIVE EQUITY INCENTIVE PLANS

The key elements of the new structure can be summarised as follows:

LTIP

The LTIP under which the first awards were made in December 2007, permits the granting of awards over Company shares worth up to a maximum of one and a half times base salary each year. Vesting of the awards is subject to the achievement of demanding performance criteria, with each award being subject to Kazakhmys' relative total shareholder return (TSR) performance. For the first awards only, selected senior executives received a dual award, with some awards being subject to a fixed two-year performance period (reflecting the fact that they had not received any long-term incentives since joining the Company) and the balance subject to a three year period. A fixed three year performance period will apply to all future awards.

Under the TSR performance condition, Kazakhmys' performance will be compared to a comparator group of 17 UK and international mining companies, with no vesting below median TSR, 30% vesting for median performance and full vesting for upper quartile performance; a sliding scale of vesting will be applied for performance between median and upper quartile.

In the event of a change of control, awards will normally vest on a pro-rata basis by reference to the length of time since the award was granted, and only if the performance condition can effectively be regarded as having been satisfied at that time.

Since executive Directors are not eligible to participate in the LTIP, shareholder approval has not been sought for the plan. However, approval will be sought at such time as an executive Director is selected to participate.

DSBP

Deferred share bonus allocations will be awarded under the DSBP, under which each year one half of the total bonus earned by eligible senior executives is deferred and invested in the Company's shares to be held by an employee benefits trust. Provided the executive remains in employment the shares will normally be released after two years.

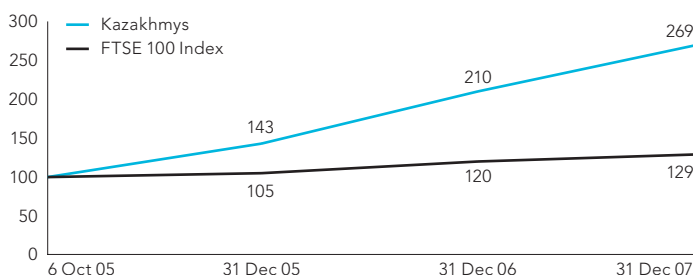
Initial awards under the deferred share bonus plan will be granted in March/April 2008 when bonuses for 2007 will be payable.

The current policy for senior executive participation in the Company's new equity incentive plans is that participants do not participate in both plans. The LTIP is reserved for the most senior employees, with the DSBP being operated for the tier below.

PERFORMANCE GRAPH

The graph shows Kazakhmys' TSR performance for the period since Listing against the performance of the FTSE 100.

The FTSE 100 was chosen because this is a broad equity market index of which the Company is a member and is a widely recognised performance comparison for large UK companies. It shows that, aided by strong commodity prices, Kazakhmys outperformed the FTSE 100 Index for this period. Kazakhmys did not outperform the FTSE 350 Mining Index, some of the values of which were buoyed by takeover activity.



Source: Thomson Financial

The graph shows the value, by 31 December 2007, of £100 invested in Kazakhmys PLC on 6 October 2005 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at the intervening year ends.

ELEMENTS OF REMUNERATION FOR EXECUTIVE DIRECTORS

The principal components of remuneration for executive Directors are base salary, benefits in kind and an annual bonus opportunity.

Directors' Remuneration Report continued

BASE SALARY AND BENEFITS IN KIND

Base salaries are reviewed each year and are effective from 1 January each year. The Committee seeks to establish a base salary for each executive Director, determined by individual performance and experience, the size and nature of the role, comparator group relativities which, for the 2007 salary review, was a group of 28 UK and international companies, and Kazakhmys' performance. Base salaries paid to executive Directors are adjusted to take account of the absence of any pension provision. Benefits include use of a car for business purposes (for Vladimir Kim and Oleg Novachuk) and medical insurance.

The base salaries for the executive Directors for the financial years beginning 1 January 2007 and 2008 are shown below. The year-on-year increase for each executive Director was 5%.

	2007	2008
Vladimir Kim	£980,000	£1,029,000
David Munro	£500,000	£525,000
Oleg Novachuk	£780,000	£819,000

ANNUAL BONUS OPPORTUNITY

At the beginning of each year, the Committee reviews the annual performance bonus scheme to ensure it remains competitive in the marketplace, continues to incentivise the executive Directors and aligns their interests with those of shareholders.

The annual bonus opportunity comprises four discrete elements: a financial performance component, an operational performance component (including safety), a strategic development measure (including execution of new projects) and a shareholder return measure. In determining the actual bonus payments, the Committee takes into consideration such factors as performance related to the Group's financial KPIs, operational performance against budget, safety improvement, business development activities and performance against industry peers. Payments are made in return for the achievement of stretching objectives.

Bonuses (which for executive Directors are payable wholly in cash) are disclosed for the year in which they are earned although they are not due and payable until the following March after the release of the audited financial results. The maximum performance-related bonus payable to executive Directors is 120% of base salary, and has been set by reference to the bonus potential of those executives performing similar roles in comparable mining and minerals companies quoted on the London Stock Exchange. Lower limits are, in general, applicable to other senior staff. For the achievement of target performance, 60% of maximum entitlement is payable. No element of the bonus is guaranteed.

In 2007, for Vladimir Kim and Oleg Novachuk the weighting given to each element of bonus was 30 percentage points and for David Munro the strategic development measure was 60 percentage points and the other three elements 20 percentage points each.

For 2007, the financial and strategic development elements were rated as strong, with the other two measures being less impressive. Taking into account these results, the Committee awarded Vladimir Kim and Oleg Novachuk payments of 70% of base salary and David Munro 80% of base salary. Details of annual bonuses paid to executive Directors are set out in the table on page 61. Bonuses were also earned by other senior management for achieving relevant performance targets for the financial year to 31 December 2007.

For 2008, the Committee has determined that the weightings given to each element will be changed, with more emphasis being placed on the operational performance component (including safety). For Vladimir Kim and Oleg Novachuk the operational performance component (including safety) will be 40 percentage points of the maximum bonus entitlement with the other three elements making up the remainder in equal proportions, and for David Munro the strategic development measure will represent 60 percentage points, the operational performance element (including safety) 30 percentage points and the remaining two measures 15 percentage points each.

SHARE PLANS

The Company does not operate any share plans or other long-term incentive arrangements for executive Directors.

PENSIONS

The Company does not provide pension benefits on behalf of any executive Directors. The absence of any pension provision is taken into account when setting base salaries.

Matthew Hird, Chief Financial Officer, is entitled to participate in a defined contribution pension scheme operated for all UK-based staff (excluding executive Directors). Eduard Ogay, Chief Executive Officer of Kazakhmys Corporation LLC, is a member of a Group pension scheme operated for all Kazakhstan-based employees to allow them to contribute the required pension amounts under Kazakh law.

SERVICE AGREEMENTS

The Company's policy is that executive Directors will be employed on a contract that can be terminated by the Company on giving no more than one year's notice, with the Director required to give up to six months' notice of termination. The contracts of Vladimir Kim and Oleg Novachuk are terminable by either the Company or the executive on three months' notice. These were granted to them on 26 September 2005.

In the exceptional case of David Munro, who became an executive Director on 1 October 2006 having previously been a non-executive Director of the Company, he was granted a service agreement on 18 September 2006 for a fixed period of two years which terminates on 1 October 2008. Prior to the expiry of this agreement, it is intended to enter into a further fixed-period service agreement terminating on 1 October 2009, with any period of notice from the Company being from the date of notice to 1 October 2009.

The Committee continues to believe that, in the event of early termination, it is more appropriate to consider the specific circumstances of each case. This includes, where appropriate, phased payment of compensation over a fixed period or until the executive finds a new position, if earlier, and mitigation of payment of compensation through providing a legal obligation on the part of the outgoing executive Director to seek new employment, rather than explicitly provide for compensation payments in service contracts.

POLICY ON EXTERNAL APPOINTMENTS

The Committee believes that the Company can benefit from executive Directors holding one approved non-executive directorship of another company, offering Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Directors to retain fees paid from any such appointment. David Munro is a non-executive director of Lonmin plc and is a member of its Remuneration Committee and Safety and Sustainability Committee. In this capacity he receives a total annual fee of £67,500 which he retains.

NON-EXECUTIVE DIRECTORS

Non-executive Directors do not have service contracts but each has a letter of appointment with the Company. Each letter of appointment provides for a one-month notice period. Non-executive Directors are normally appointed for an initial period of three years. Their dates of appointment are shown in their respective biographies on pages 48 and 49.

Fees for the non-executive Directors are approved by the Board, upon the recommendation of the executive Directors. The Board's policy on non-executive Directors' fees takes into account not only the need to attract individuals of the right calibre and experience, but also their responsibilities and time commitment (including attending Board and committee meetings in Kazakhstan), and the fees paid by other companies. Except for Vladimir Ni (see note 5 in the table below), non-executive Directors receive no benefits other than their fees, the rate of which has remained unchanged since Listing at £120,000 per annum. No additional fees are paid to reflect time spent working on, or being the chairman of, Board committees. Non-executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

REMUNERATION FOR THE YEAR TO 31 DECEMBER 2007

The total emoluments of the Directors for the year to 31 December 2007 were as shown in the table below.

Directors' emoluments	Base salary/fees £000	Benefits ¹ £000	Annual performance bonus £000	Total 2007 £000	Total 2006 £000
Chairman					
Vladimir Kim ²	980	33	686	1,699	1,797
Chief Executive					
Oleg Novachuk ³	743	32	520	1,295	1,106
Executive Director					
David Munro	500	1	400	901	315
Non-executive Directors					
Philip Aiken	120	—	—	120	20
Simon Heale ⁴	120	—	—	120	—
Vladimir Ni ⁵	370	—	—	370	394
Lord Renwick	120	—	—	120	120
James Rutland	120	—	—	120	120
Former Directors					
Yong Keu Cha ⁶	400	36	—	436	1,767
Total	3,473	102	1,606	5,181	5,639

¹ Benefits include all taxable benefits arising from employment by the Company, including provision of a car for business purposes (for Vladimir Kim and Oleg Novachuk) and medical insurance.

² Vladimir Kim received an aggregate salary of £980,000 per annum. Of this salary, \$1,004,400 was paid by Kazakhmys Corporation LLC and the balance was paid by the Company. An adjustment is made to his salary each year to ensure that his aggregate salary for the year equates to his salary denominated in UK pounds sterling as a result of exchange rate differences.

³ Oleg Novachuk was appointed Chief Executive on 15 March 2007, prior to that date he was Finance Director.

⁴ Simon Heale was appointed a non-executive Director on 1 January 2007.

⁵ Vladimir Ni's salary consists of two components: a non-executive Director's fee of £120,000 per annum in respect of his duties as a non-executive Director of the Company and a salary of \$500,000 (£250,000) per annum in respect of his duties as chairman of Kazakhmys Corporation LLC.

⁶ Yong Keu Cha stood down as Special Adviser to the Board on 31 December 2007. In 2007, he received a base salary of £400,000 and benefits in kind. No compensation payments were made to him when he stood down. The Board has agreed with Yong Keu Cha that he will continue to assist the Group as a consultant in dealing with matters relating to sales and relationships with major customers. Payments made to Yong Keu Cha are disclosed under former directors.

SENIOR MANAGERS

The emoluments for the year ended 31 December 2007 of Matthew Hird, Chief Financial Officer, and Eduard Ogay, Chief Executive Officer of Kazakhmys Corporation LLC, the Group's senior managers, were as shown in the table below.

Senior managers' emoluments	Base salary £000	Annual performance bonus £000	2007 £000
Matthew Hird ¹	303	212	515
Eduard Ogay ²	424	74	498
Total emoluments	727	286	1,013

¹ Matthew Hird was appointed Chief Financial Officer on 15 March 2007.

² Eduard Ogay was appointed Chief Executive Officer of Kazakhmys Corporation LLC in August 2006.

Directors' Remuneration Report continued

LTIP AWARDS FOR SENIOR EXECUTIVES

Senior executives, excluding executive Directors, are entitled to participate in the Kazakhmys Long Term Incentive Plan 2007. Initial awards under this plan were granted for nil consideration over a total of 49,088 shares on 3 December 2007, when the prevailing market price was 1,345p. Of these awards, 11,226 will vest on 3 December 2009 and the remainder on 3 December 2010 to the extent that the performance condition set out on page 59 is satisfied. Awards granted under the plan included 8,068 awards to Matthew Hird with a two year vesting period and 21,745 awards with a three year vesting period.

DIRECTORS' INTERESTS IN ORDINARY SHARES

The interests of the Directors who held office at 31 December 2007 in the Company's ordinary shares as at that date and 1 January 2007 are shown in table below.

Directors' interests in ordinary shares	Ordinary shares at 1 January 2007	Ordinary shares at 31 December 2007
Vladimir Kim	208,183,588	208,183,588
David Munro	41,211	41,211
Vladimir Ni	11,686,855	11,686,855
Oleg Novachuk	50,817,545	34,923,423
Lord Renwick	—	4,000

1 No changes in Directors' interests occurred in the period between 1 January 2008 and 5 March 2008.

2 The market value of the Company's shares in the year was in the range of 1,008p to 1,596p.

AUDITED INFORMATION

In accordance with the Companies Act 1985, the following sections of the report have been audited: the table entitled 'Directors' emoluments' and related notes under the heading 'Remuneration for the year to 31 December 2007' and the table entitled 'Directors' interests in ordinary shares' under the heading of the same name. The remaining sections are not subject to audit.

On behalf of the Board

LORD RENWICK

CHAIRMAN, REMUNERATION COMMITTEE

5 March 2008

Responsibilities of the Directors for the Preparation of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Shareholders of Kazakhmys PLC

We have audited the Group and parent company financial statements (the financial statements) of Kazakhmys PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 49. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Business Review, the Directors' Report, the Corporate Governance Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Company's financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

ERNST & YOUNG LLP

REGISTERED AUDITOR

London, United Kingdom

5 March 2008

Consolidated income statement

YEAR ENDED 31 DECEMBER 2007

\$ million	Notes	2007	2006
Revenues	5	5,256.6	5,046.5
Cost of sales	6(a)	(2,832.2)	(2,612.4)
Gross profit		2,424.4	2,434.1
Selling and distribution expenses		(81.4)	(81.4)
Administrative expenses	6(b)	(360.0)	(280.8)
Other operating income	6(c)	136.0	44.7
Other operating expenses	6(d)	(40.5)	(35.1)
Write offs and impairment losses	7	(30.1)	(9.9)
Profit before taxation, finance items and negative goodwill		2,048.4	2,071.6
Finance income	11	260.1	266.8
Finance costs	11	(282.6)	(177.1)
Recognition of negative goodwill		—	6.5
Profit before taxation		2,025.9	2,167.8
Income tax expense	12	(599.2)	(754.7)
Profit for the year		1,426.7	1,413.1
Attributable to:			
Equity shareholders of the Company		1,415.7	1,399.7
Minority interests		11.0	13.4
		1,426.7	1,413.1
Earnings per share attributable to equity shareholders of the Company			
Basic and diluted	13(a)	\$3.04	\$2.99
EPS based on Underlying Profit	13(b)	\$3.02	\$3.00
Dividends			
Dividends per share (US cents)	14	89.3	48.8
Total amount of dividends	14	419.1	228.1

Consolidated balance sheet

AT 31 DECEMBER 2007

\$ million	Notes	2007	2006
Assets			
Non-current assets			
Intangible assets	15	567.5	28.9
Tangible assets		2,517.3	1,958.3
Property, plant and equipment	16	2,129.3	1,814.8
Mining assets	17	388.0	143.5
Available for sale investments	18	2,401.0	–
Other non-current investments	19	12.2	6.2
		5,498.0	1,993.4
Current assets			
Inventories	20	815.1	730.6
Prepayments and other current assets	21	211.8	110.4
Trade and other receivables	22	332.9	263.5
Investments	23	57.3	1,237.2
Cash and cash equivalents	24	438.5	785.4
		1,855.6	3,127.1
TOTAL ASSETS		7,353.6	5,120.5
Equity and liabilities			
Share capital	25(a)	170.3	173.3
Share premium		481.0	503.4
Capital reserves	25(b)	2,084.0	266.2
Retained earnings		3,683.9	2,917.0
Equity attributable to shareholders of the Company		6,419.2	3,859.9
Minority interests		14.0	31.9
TOTAL EQUITY		6,433.2	3,891.8
Non-current liabilities			
Deferred tax liability	12(b)	283.0	347.7
Employee benefits	27	37.2	32.7
Provisions	28	97.7	57.4
Borrowings	29	195.9	277.3
		613.8	715.1
Current liabilities			
Provisions	28	14.2	1.9
Borrowings	29	1.6	–
Trade and other payables	30	223.4	330.4
Income taxes payable		65.3	176.9
Dividend payable		2.1	4.4
		306.6	513.6
TOTAL LIABILITIES		920.4	1,228.7
TOTAL EQUITY AND LIABILITIES		7,353.6	5,120.5

These financial statements were approved by the Board of Directors on 5 March 2008.

Signed on behalf of the Board of Directors

OLEG NOVACHUK
CHIEF EXECUTIVE

MATTHEW HIRD
CHIEF FINANCIAL OFFICER

Company balance sheet

AT 31 DECEMBER 2007

\$ million	Notes	2007	2006
Assets			
Non-current assets			
Tangible assets	36	7.1	5.0
Investments	37	2,818.7	1,151.3
		2,825.8	1,156.3
Current assets			
Inventories	38	16.0	24.0
Prepayments and other current assets	39	7.0	6.0
Trade and other receivables	40	250.9	380.7
Cash and cash equivalents		133.8	429.3
		407.7	840.0
TOTAL ASSETS		3,233.5	1,996.3
Equity and liabilities			
Share capital	25(a)	170.3	173.3
Share premium		481.0	503.4
Capital reserve	42	779.0	779.0
Retained earnings		378.9	353.1
Equity attributable to shareholders of the Company		1,809.2	1,808.8
Current liabilities			
Borrowings	43	1,265.0	–
Trade and other payables	44	153.0	184.4
Income tax payable		6.1	2.9
Dividend payable		0.2	0.2
TOTAL LIABILITIES		1,424.3	187.5
TOTAL EQUITY AND LIABILITIES		3,233.5	1,996.3

Consolidated cash flow statement

YEAR ENDED 31 DECEMBER 2007

\$ million	Notes	2007	2006
Cash flows from operating activities			
Cash receipts from customers		5,258.6	5,076.6
Cash paid to employees and suppliers		(3,258.8)	(3,034.3)
Cash inflow before interest and income taxes paid		1,999.8	2,042.3
Interest paid		(13.7)	(6.8)
Income taxes paid		(849.6)	(623.3)
Net cash inflow from operating activities	31	1,136.5	1,412.2
Cash flows from investing activities			
Interest received		121.3	77.2
Proceeds from disposal of property, plant and equipment		8.0	3.4
Purchase of property, plant and equipment		(455.1)	(281.1)
Investments in mining assets		(29.6)	(63.6)
Purchase of intangible assets		(458.3)	(0.4)
Licence payments for subsoil contracts		(3.3)	(1.6)
Proceeds from disposal of non-current investments		3.0	2.6
Acquisition of non-current investments		(8.5)	(0.7)
Proceeds from disposal of assets held for trading		51.8	1.0
Acquisition of assets held for trading		–	(50.8)
Acquisition of available for sale investments		(806.3)	–
Receipts from/(investments in) short-term bank deposits (net)		1,132.6	(784.7)
Acquisition of subsidiaries (net of cash acquired)		(259.3)	(2.0)
Net cash flows used in investing activities		(703.7)	(1,100.7)
Cash flows from financing activities			
Purchase of minority interests		(11.5)	–
Proceeds from contribution to charter capital of subsidiary by minority interests		–	1.6
Purchase of Company's issued share capital		(270.3)	–
Proceeds from borrowings		–	249.5
Repayment of borrowings	32	(112.4)	(41.5)
Dividends paid by the Company		(419.1)	(230.4)
Dividends paid by subsidiary to minority interests		(4.8)	(3.0)
Net cash flows used in financing activities		(818.1)	(23.8)
Net (decrease)/increase in cash and cash equivalents		(385.3)	287.7
Cash and cash equivalents at the beginning of the year		785.4	522.0
Effect of exchange rate changes on cash and cash equivalents		38.4	(24.3)
Cash and cash equivalents at the end of the year	32	438.5	785.4

Company cash flow statement

YEAR ENDED 31 DECEMBER 2007

\$ million	Notes	2007	2006
Profit before taxation		640.0	417.0
Interest income		(19.2)	(22.2)
Interest expense		6.1	–
Depreciation of tangible assets		1.1	0.4
Write offs and losses on disposal of tangible assets		–	0.6
Unrealised foreign exchange gain		(16.4)	(5.1)
Dividend income		(580.7)	(399.2)
Operating cash flows before changes in working capital		30.9	(8.5)
Decrease/(increase) in inventories		8.0	(24.0)
(Increase)/decrease in prepayments and other current assets		(1.0)	2.0
Increase in trade and other receivables		(31.8)	(13.4)
(Decrease)/increase in trade and other payables		(37.5)	103.2
Cash flows (used in)/from operations before interest and income taxes paid and dividends received		(31.4)	59.3
Income taxes paid		(14.7)	(2.7)
Dividends received		759.0	266.2
Net cash inflow from operating activities		712.9	322.8
Cash flows from investing activities			
Interest received		19.1	22.6
Purchase of tangible assets		(3.2)	(5.2)
Purchase of minority interests in subsidiary		(11.5)	–
Purchase of non-current investments		(1,588.4)	(186.8)
Net cash flows used in investing activities		(1,584.0)	(169.4)
Cash flows from financing activities			
Purchase of Company's issued share capital		(270.3)	–
Proceeds from borrowings		1,265.0	–
Dividends paid		(419.1)	(230.4)
Net cash flows from/(used in) financing activities		575.6	(230.4)
Net decrease in cash and cash equivalents		(295.5)	(77.0)
Cash and cash equivalents at the beginning of year		429.3	506.3
Cash and cash equivalents at the end of year	45	133.8	429.3

Consolidated statement of changes in equity

YEAR ENDED 31 DECEMBER 2007

\$ million	Notes	Attributable to equity shareholders of the Company					Minority interests	Total equity
		Share capital	Share premium	Capital reserves	Retained earnings	Total		
At 1 January 2006		173.3	503.4	157.3	1,765.8	2,599.8	26.3	2,626.1
Profit for the year		–	–	–	1,399.7	1,399.7	13.4	1,413.1
Currency translation differences		–	–	80.7	–	80.7	0.4	81.1
		–	–	80.7	1,399.7	1,480.4	13.8	1,494.2
Contribution to charter capital of subsidiary by minority shareholders	25(c)	–	–	–	–	–	1.6	1.6
Transfer to reserve fund	25(b)	–	–	28.2	(28.2)	–	–	–
Gain from dilution of minority interest in subsidiary		–	–	–	7.8	7.8	(7.8)	–
Acquisition of minority interest in subsidiary		–	–	–	–	–	1.0	1.0
Equity dividends paid by the Company	14	–	–	–	(228.1)	(228.1)	–	(228.1)
Equity dividends paid by subsidiary to minority shareholders		–	–	–	–	–	(3.0)	(3.0)
At 31 December 2006		173.3	503.4	266.2	2,917.0	3,859.9	31.9	3,891.8
Profit for the year		–	–	–	1,415.7	1,415.7	11.0	1,426.7
Unrealised gain on available for sale investments	25(b)	–	–	1,594.7	–	1,594.7	–	1,594.7
Currency translation differences		–	–	223.1	–	223.1	0.5	223.6
		–	–	1,817.8	1,415.7	3,233.5	11.5	3,245.0
Shares issued pursuant to acquisition of minority interest in subsidiary (net of issue costs of \$1.0 million)	25(a)	1.1	66.4	–	(52.3)	15.2	(27.3)	(12.1)
Purchase of Company's issued share capital	25(a)	(4.1)	(88.8)	–	(177.4)	(270.3)	–	(270.3)
Equity dividends paid by the Company	14	–	–	–	(419.1)	(419.1)	–	(419.1)
Equity dividends paid by subsidiary to minority shareholders		–	–	–	–	–	(2.1)	(2.1)
At 31 December 2007		170.3	481.0	2,084.0	3,683.9	6,419.2	14.0	6,433.2

Company statement of changes in equity

YEAR ENDED 31 DECEMBER 2007

\$ million	Notes	Share capital	Share premium	Capital reserves	Retained earnings	Total equity
At 1 January 2006		173.3	503.4	779.0	169.4	1,625.1
Profit for the year		–	–	–	411.8	411.8
Equity dividends paid by the Company	14	–	–	–	(228.1)	(228.1)
At 31 December 2006		173.3	503.4	779.0	353.1	1,808.8
Profit for the year		–	–	–	622.3	622.3
Shares issued pursuant to acquisition of minority interest in subsidiary (net of issue costs of \$1.0 million)	25(a)	1.1	66.4	–	–	67.5
Purchase of Company's issued share capital	25(a)	(4.1)	(88.8)	–	(177.4)	(270.3)
Equity dividends paid by the Company	14	–	–	–	(419.1)	(419.1)
At 31 December 2007		170.3	481.0	779.0	378.9	1,809.2

Notes to the consolidated financial statements

YEAR ENDED 31 DECEMBER 2007

1. CORPORATE INFORMATION

(a) ORGANISATION AND OPERATION

Kazakhmys PLC (the 'Company') is a public limited company incorporated in the United Kingdom of Great Britain and Northern Ireland. The Company's registered address is 6th Floor, Cardinal Place, 100 Victoria Street, London SW1E 5JL, United Kingdom. The Group comprises the Company and its consolidated subsidiaries as set out below.

The Group operates in the natural resources industry. The Group's operations are primarily conducted through the Company's principal subsidiary, Kazakhmys Corporation LLC whose major business is the mining and processing of copper ore into copper cathodes and copper wire, and the refining and sale of precious metals and other by-products of its copper mining process. It also provides other services to various external customers.

The principal activities of the Company and the significant subsidiaries/divisions as at 31 December 2007 are as follows:

Operating entity	Principal activity	Country of incorporation
Kazakhmys PLC	Holding company and sales	United Kingdom
Kazakhmys Corporation LLC	Mining and processing copper	Kazakhstan
Kazakhmys Gold	Mining and processing gold	Kazakhstan
Kazakhmys Petroleum LLP	Oil and gas exploration	Kazakhstan
MKM Mansfelder Kupfer und Messing GmbH	Copper processing	Germany

(b) KAZAKHSTAN BUSINESS ENVIRONMENT AND COUNTRY RISK

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial statements reflect the Directors' assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from the Directors' assessment.

(c) FINANCIAL RISK MANAGEMENT

The Group is exposed to the effect of fluctuations in the price of copper, which is quoted in US dollars on the international markets. The Group is also exposed, to a lesser degree, to the prices of other metals, including zinc, gold and silver, which are also products produced by the Group. Refer to note 33 for a description of other financial risks.

(d) ORE RESERVES AND RECOVERABILITY OF FIXED ASSETS

The Group's operations are dependent upon the mining and processing of mineral products from deposits primarily within Kazakhstan and neighbouring Central Asian countries. The long-term economic viability of the Group is dependent upon the continuing availability of sufficient economically recoverable ore reserves and the ongoing renewal of subsoil use rights.

2. BASIS OF PREPARATION

The financial statements set out on pages 65 to 123 have been prepared using consistent accounting policies. The Group has changed the presentation in respect of its mine development costs and mine stripping costs from that disclosed in the 2006 Annual Report. Mine development costs, which were previously included within property, plant and equipment, have now been reclassified under 'Mining assets' which includes mine stripping costs. The revised presentation of mining assets is consistent with the Group's internal management reporting structure.

The Company has taken the exemption under section 230(4) of the Companies Act 1985 and has not published the Company income statement and related notes.

(a) BASIS OF ACCOUNTING

The consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment which have been revalued at 1 January 2002 to determine deemed cost as part of the first-time adoption of International Financial Reporting Standards (IFRS) at that date, and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in US dollars (\$) and all monetary amounts are rounded to the nearest million dollar (\$ million) except when otherwise indicated.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements set out the Group's financial position as at 31 December 2007 and the Group's financial performance for the year ended 31 December 2007.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. On acquisition of a subsidiary, the purchase consideration is allocated to the assets, liabilities and contingent liabilities on the basis of their fair value at the date of acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of identifiable net assets of the subsidiary acquired is recognised as positive goodwill. Negative goodwill arises where the fair value of the Group's share of identifiable net assets of the subsidiary exceeds the cost of the acquisition. Negative goodwill is recognised directly in the income statement.

2. BASIS OF PREPARATION continued

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interests primarily represent the interests in Kazakhmys LLC not held by the Company. The Company applies the equity concept method of consolidation and accounts for the acquisition of minority interests within equity.

Refer to note 48 for a list of the Company's significant subsidiaries.

(c) STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union up to 31 December 2007, and in accordance with the provisions of the Companies Acts 1985 and 2006.

(d) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In preparing the consolidated financial statements, the Group has not applied the following relevant standards and interpretations that have been issued but are not yet effective:

- IFRS 3 'Business combinations' which is effective for annual periods beginning on or after 1 July 2009. IFRS 3 provides greater guidance on how an entity recognises and measures a business combination and what information is required to be disclosed;
- IFRS 8 'Operating segments' which is effective for annual periods beginning on or after 1 January 2009. Upon adoption of IFRS 8, the Group will have to disclose additional financial and descriptive information about its reportable segments. There will be no effect on reported income or net assets;
- IAS 1 'Presentation of Financial Statements (Revised)' which is effective for annual periods beginning on or after 1 January 2009. IAS 1 has been revised to enhance the usefulness of information presented in the financial statements, and will lead to changes in the presentation and disclosures within the financial statements. There will be no effect on reported income or net assets;
- IAS 23 'Borrowing Costs (Revised)' which is effective for annual periods beginning on or after 1 January 2009. IAS 23 (Revised) requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The accounting standard will be applicable for the Group as it takes on debt to finance capital projects and acquisitions;
- IAS 27 'Consolidated and separate financial statements (Revised)' which is effective for annual periods beginning on or after 1 July 2009. The amendments to IAS 27 primarily relate to the accounting for non-controlling interests and the loss of control of a subsidiary;
- IFRIC 11 'IFRS 2: Group and treasury scheme transactions,' which is effective for annual periods beginning on or after 1 March 2007. The Interpretation provides further guidance on the application of IFRS 2 'Share based payments' in specific situations.

The Directors do not anticipate, in light of the circumstances prevailing at the date of approval of this Annual Report, that the adoption of these standards and interpretations in future periods will have a material impact on the consolidated financial statements of the Group in the period of initial application.

(e) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(i) JUDGEMENTS

In the process of applying the Group's accounting policies, the Directors have made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

USEFUL ECONOMIC LIVES AND IMPAIRMENT INDICATORS

Tangible and intangible assets are depreciated over their useful economic lives. Management reviews the useful economic lives at least once a year and any changes that could affect the depreciation rates prospectively and hence the asset carrying values. Management also reviews its tangible and intangible assets, including mining properties, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. In assessing any assets for impairment, factors leading to significant reduction in profits such as changes in commodity prices, the Group's business plans and significant downward revision in the estimated mining reserves are taken into consideration. The carrying value of the assets of a cash generating unit (CGU) and associated mining reserves is compared with the fair value of those assets, that is, the higher of net realisable value and value in use. Value in use is usually determined on the basis of discounted estimated future cash flows. This involves management estimates on commodity prices, market demand and supply, economic and regulatory climates, long term mine plans and other factors. Any subsequent changes to cash flows due to changes in the above mentioned factors could impact the carrying value of the assets.

ALLOCATION OF EXCESS PURCHASE CONSIDERATION

The acquisition of mining assets involves estimation over the allocation of the excess purchase consideration over the fair value of assets, including the mining reserves and resources, being acquired. The estimate of reserves is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves as a result of factors such as production costs, recovery rates, grade of reserves or commodity prices could impact depreciation rates, asset carrying values and environmental and restoration provisions. Changes in assumptions over long term commodity prices, market demand and supply and economic and regulatory climates could also impact on the carrying value of assets.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

2. BASIS OF PREPARATION continued

DETERMINATION OF EXCESS PROFITS TAXATION

The determination of the Group's obligations and expenses for taxes requires an interpretation of tax legislation. Excess profits tax (EPT) is imposed on the Group in addition to Kazakhstan corporate income tax on certain profitable subsoil contracts. EPT is based on an approximation of the internal rate of return (IRR) with EPT being applicable only where the cumulative IRR exceeds 20%. In determining the IRR for each subsoil contract, there is considerable judgement involved as to the allocation of profit amongst the Group's subsoil contracts, the nature of deductions for capital expenditure and the timing of those deductions. Management believes its judgements are reasonable and in compliance with the legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation.

ACCOUNTING FOR POTENTIAL TRANSFER PRICING LIABILITIES

For the years ended 31 December 2006 and 2007, Kazakhmys LLC sold its exported products to Kazakhmys PLC under an exclusive purchasing agreement at the prevailing LME price, with no discount to LME price in 2006, but with a discount to LME price in 2007 reflecting the risks borne by Kazakhmys PLC in 2007 due to changes in contractual terms with customers. Management believes that these prices, and accompanying discount where applicable, reflect the balance of commercial and credit risks shared between Kazakhmys LLC and Kazakhmys PLC.

Management has recognised the nature of the transfer pricing legislation promulgated in Kazakhstan and the UK in determining any consequential tax liabilities in these jurisdictions resulting from the sale of exported products from Kazakhmys LLC to Kazakhmys PLC for 2006 and 2007.

(ii) ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

In particular, the following areas of the accounts include a significant degree of estimating uncertainty:

- note 12 – Income tax;
- note 16 – Property, plant and equipment;
- note 17 – Mining assets;
- note 27 – Employee benefits;
- note 28 – Provisions;
- note 34 – Commitments and contingencies.

(f) COMPARATIVE FIGURES

Where a change in the presentational format of the consolidated financial statements has been made during the year, comparative figures have been restated accordingly.

(g) CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. The accounting policies adopted are consistent with those of the previous financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) FOREIGN CURRENCY TRANSLATION

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

The functional currency of the Company is US dollars (\$) as the majority of its operating activities are conducted in US dollars. The functional currencies of Kazakhmys LLC, Kazakhmys Gold and Kazakhmys Petroleum LLP is the Kazakhstan tenge (KZT) and of MKM is the Euro (€). On consolidation, income statements of subsidiaries are translated into US dollars, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. Exchange differences on the retranslation are taken to a separate component of equity. Exchange differences on foreign currency borrowings financing those net investments are also dealt with in equity. All other exchange differences are charged or credited to the income statement in the year in which they arise. The following foreign exchange rates against the US dollar have been used in the preparation of the consolidated financial statements:

	31 December 2007	Average 2007	31 December 2006	Average 2006
Kazakhstan tenge	120.30	122.55	127.00	126.09
Euro	0.68	0.73	0.76	0.78
UK pounds sterling	0.50	0.50	0.51	0.54

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(b) INTANGIBLE ASSETS

(i) GOODWILL

On the acquisition of a subsidiary, or of an interest in a joint venture, associate, or joint arrangement, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. Those mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights for which, in the Directors' opinion, values cannot be reliably determined, are not recognised. When the cost of acquisition exceeds the fair value attributable to the Group's share of the identifiable net assets the difference is treated as purchased goodwill. Goodwill is stated at cost less impairment losses. Goodwill is not amortised, rather it is tested annually for impairment. Goodwill is allocated to the cash-generating unit or group of cash-generating units expected to benefit from the related business combination for the purpose of the impairment testing. An impairment loss in respect of goodwill is not reversed.

(ii) OTHER INTANGIBLE ASSETS

Other intangible assets, including mineral and petroleum licences, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

(iii) AMORTISATION

Intangible assets, other than goodwill, primarily comprise mineral licence acquisition costs, which are amortised on a unit of production basis. Amortisation for other intangible assets, which have expected useful lives of three to ten years, is computed under the straight-line method over the estimated useful lives of the assets.

(c) RESEARCH AND DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(d) TANGIBLE ASSETS

(i) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost or 'deemed cost' of property, plant and equipment (hereafter referred to as 'cost') at 1 January 2002, the date of Kazakhmys LLC's transition to IFRS, was determined by reference to its depreciated replacement cost at that date in accordance with IFRS 1.

The cost of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. Changes in estimates, which affect unit of production calculations, are accounted for prospectively. Depreciation commences on the date the assets are used within the business. Freehold land is not depreciated.

The expected useful lives are as follows:

Buildings	15–25 years
Plant and equipment	4–25 years
Fixtures and fittings	3–15 years

(ii) CONSTRUCTION IN PROGRESS

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Construction in progress is not depreciated.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(iii) REPAIRS AND MAINTENANCE

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Repairs and maintenance expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as incurred.

(iv) GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to the cost of the asset and is released to the income statement over the expected useful life in a consistent manner with the depreciation method for the relevant asset.

(v) LEASING AND HIRE PURCHASE COMMITMENTS

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased items, are capitalised at the commencement of the lease. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. Lease payments are apportioned between the finance charge and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are treated as operating leases and the cost is expensed to the income statement as incurred.

(vi) MINING ASSETS

Costs of acquiring mineral properties are capitalised on the balance sheet in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised during the commissioning period (development expenditure) where the asset is incapable of operating at normal levels without a commissioning period. Mineral properties are amortised using proven developed and undeveloped reserves.

Mine development costs are, upon commencement of production, depreciated using a unit of production method (using proven developed reserves) based on the estimated economically recoverable reserves to which they relate.

Mine stripping costs incurred in order to access the mineral-bearing ore deposits are deferred prior to the commencement of production. Such costs are amortised over the remaining life of the mine on a unit of production basis using proven developed reserves.

The cost of removal of the waste material during a mine's production phase is deferred if the stripping activity permits an increase in the output of the mine in future periods through providing access to additional sources of reserves that will be produced in future periods. Capitalised stripping costs are amortised in systematic manner over the reserves that directly benefit from the specific stripping activity.

Exploration and evaluation expenditure for each area of interest, other than that acquired through a purchase or transaction, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful exploration and development of the area of interest or, alternatively, by its sale;
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred. A significant portion of exploration and evaluation expenditure relates to mineral licences, which are classified and accounted for as intangible assets.

Identifiable exploration and evaluation assets acquired in a purchase transaction are recognised as assets at their cost of acquisition from another mining company. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Exploration and evaluation assets attributable to producing interests are amortised on a unit of production basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(e) OIL AND GAS ASSETS

(i) EXPLORATION, EVALUATION AND PRODUCTION ASSETS

The Group adopts the successful efforts method of accounting for oil and gas exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs are capitalised insofar as they relate to specific exploration and development activities. Pre-licence costs are expensed in the period in which they are incurred.

All capitalised licence acquisition, exploration and evaluation costs are then written off unless commercial reserves have been established, or the determination process has not been completed and there are no indications of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are amortised on a unit of production basis.

(ii) COMMERCIAL RESERVES

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves.

(iii) DEPLETION AND AMORTISATION – DISCOVERY FIELDS

All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves over the life of the field, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs.

Any impairment identified is charged to the income statement as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

(f) NON-CURRENT INVESTMENTS

Non-current investments in subsidiaries are included in the Company financial statements at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

(g) IMPAIRMENT

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset or cash-generating unit at the lower amount. Impairment losses are recognised in the income statement.

(i) CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(ii) REVERSALS OF IMPAIRMENT

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) INVENTORIES

Raw materials and consumables are stated at the lower of cost and net realisable value on a first-in first-out (FIFO) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. Cost for raw materials and consumables is the purchase price and for work in progress and finished goods is the cost of production, including the appropriate proportion of depreciation and overheads. The cost of work in progress and finished goods is based on the weighted average cost method. In the case of work in progress and finished goods, cost includes an appropriate share of overheads based on normal operating capacity.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(i) TRADE AND OTHER RECEIVABLES

Trade receivables are carried at original invoice price (which is the fair value of the consideration receivable) less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial assets' original effective interest rate. The amount of the provision is recognised in the income statement.

(j) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities less than three months at inception and highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) BORROWINGS

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(l) EMPLOYEE BENEFITS

(i) LONG-TERM EMPLOYEE BENEFITS

Kazakhmys LLC provides long-term employee benefits to employees before, on and after retirement, in accordance with a labour union agreement. Such benefits are valued consistent with an unfunded defined benefit plan in accordance with IAS 19, 'Employee Benefits'. The agreement provides for one-time retirement grants, financial aid, dental care, medical benefits, sanatorium visits, annual financial support to pensioners, free tickets for city buses, privilege tickets for shuttle buses and funeral aid.

The agreement in Germany provides for part-time work for older employees. There are no employee benefits provided in the United Kingdom.

The future benefit that employees have earned is discounted to determine the present value. The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's benefit obligations. The calculation is performed by a qualified actuary.

The Group recognises actuarial gains and losses falling outside a 'corridor' of the greater of 10% of the benefit obligation or 10% of the assets, amortised over the expected average future working lifetime of employees in the arrangements. The expense in relation to these long-term employee benefits is charged to the income statement so as to match the cost of providing these benefits to the period of service of the employees.

(ii) SHARE-BASED PAYMENTS

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions are determined by an external consultant and the fair value at the grant date are expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the current expectations. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

(iii) TRUST ACTIVITIES

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements. Transactions entered into with these trust activities are expensed in the consolidated financial statements.

(iv) SOCIAL PROGRAMMES

The Group is obliged to contribute towards social programmes for the benefit of the local community at large. The Group's contributions towards these programmes are expensed to the income statement as incurred.

(m) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(i) SITE RESTORATION COSTS

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations.

(ii) RESTRUCTURING

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Future operating costs are not provided.

(iii) OTHER

Other provisions are accounted for when the Group has a legal or constructive obligation for which it is probable there will be an outflow of resources, for which the amount can be reliably estimated.

(n) REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer.

Almost all sales agreements for copper cathodes and copper rods provide for provisional pricing of sales in the month of sale with final pricing settlement based on the average LME copper price for the month following the sale. Sales which remain open to final pricing at year end are valued at provisional prices. Sales are subsequently adjusted for the final pricing settlement when closed out in the following year.

Revenue excludes any applicable sales taxes. Mining royalties are included within cost of sales.

(o) FINANCE INCOME

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

(p) FINANCE COSTS

Finance costs comprise interest expense on borrowings, the accumulation of interest on provisions and foreign exchange losses. All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs.

(q) INCOME TAX

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Excess profits tax is treated as income tax and forms part of the income tax expense.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- those arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss;
- investments in subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred excess profits tax is calculated with respect to temporary differences in respect of assets allocated to contracts for subsoil use at the expected rate of excess profits tax to be paid under the contract.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(r) DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved by shareholders.

(s) FINANCIAL INSTRUMENTS

(i) RECOGNITION

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(ii) MEASUREMENT

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in the income statement.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

The Group classifies investments depending upon the intent of management at the time of the purchase. Investments with fixed maturities and fixed or determinable payments that management has both the positive intent, and the ability to hold to maturity are classified as 'held-to-maturity'. Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Assets held for trading are financial assets held for short term trading purposes, and are measured at fair value through profit or loss.

Loans and receivables are loans and receivables created by the Group providing money to a debtor. Loans and receivables comprise loans and advances other than purchased loans.

Held-to-maturity investments and originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Available for sale investments are non-derivative financial assets and include investments that are for sale, although there is no timeframe in which management is required to sell them. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date, in which case they are included within current assets. These assets are recorded at fair value with the unrealised movements in fair value being recognised directly in equity until disposal or sale, at which time, those unrealised movements from prior periods are recognised in profit or loss. If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals of impairment in respect of equity instruments classified as available for sale are not recognised in profit or loss.

Commodity futures are initially recognised at fair value. Any gains and losses arising from changes in fair value are recognised immediately in the income statement in the period in which they occur.

(iii) DERECOGNITION

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Held-to-maturity instruments and originated loans and receivables are derecognised on the date they are transferred by the Group.

4. BUSINESS ACQUISITIONS

(a) EURASIA GOLD INC.

On 5 July 2007 the Group acquired 96.34% of the ordinary shares of Eurasia Gold Inc. (Eurasia Gold) a company listed on the Toronto Stock Exchange. Since the offer was accepted by holders of more than 90% of the Eurasia Gold shares, Kazakhmys Gold Inc., an indirectly wholly owned subsidiary of Kazakhmys PLC exercised its right under the compulsory acquisition provisions of the Business Corporations Act (British Columbia) to acquire the outstanding Eurasia Gold shares not already owned by Kazakhmys Gold Inc. at the same price of CA\$0.85 for each Eurasia Gold share. On 12 September 2007, the Group completed the compulsory acquisition, thereby taking its interest in Eurasia Gold to 100%. The principal activity of Eurasia Gold and its subsidiaries is the mining and processing of gold ore into gold doré.

Eurasia Gold was purchased for a total consideration of \$270.9 million in cash. At the acquisition date, the net identifiable assets and liabilities of Eurasia Gold, including fair value adjustments, were as follows:

\$ million	Carrying value at acquisition date	Fair value adjustments	Fair value at acquisition
Assets			
Property, plant and equipment ¹	8.6	(0.2)	8.4
Mining assets ¹	7.6	231.0	238.6
Other assets ¹	2.0	(2.0)	–
Inventories ²	11.2	4.1	15.3
Trade and other receivables	9.0	–	9.0
Cash and cash equivalents	11.6	–	11.6
Liabilities			
Deferred tax liability ³	–	(46.8)	(46.8)
Provisions	(1.2)	–	(1.2)
Loans and borrowings	(9.2)	3.3	(5.9)
Trade and other payables	(4.0)	–	(4.0)
Net identifiable assets	35.6	189.4	225.0
Goodwill arising on purchase ⁴			45.9
Purchase consideration paid			270.9

¹ Fair value adjustments have been made to reflect the fair values of land and buildings, plant and machinery, reserves and resources and other exploration and development projects.

² Inventories have been revalued to their net realisable value.

³ The increase in the deferred tax liability largely reflects the tax effect of the fair value adjustments.

⁴ Goodwill has been recognised as a consequence of the requirement to recognise a deferred tax liability on the fair value adjustments.

From the date of acquisition, Eurasia Gold has contributed an after tax loss of \$2.1 million to the net profit of the Group. If the combination had taken place at the beginning of the year, the net profit of the Group would have been \$4.1 million lower at \$1,422.6 million and revenues would have been \$11.9 million higher at \$5,268.5 million.

(b) ZhREK JSC

In February 2006, the Group acquired 90% of ZhREK JSC, a power transmission company in Kazakhstan, for \$2.3 million. The fair value of the net identifiable assets was \$9.8 million, minority interests were \$1.0 million and negative goodwill on acquisition was \$6.5 million. Upon acquisition, the Group acquired cash of \$0.3 million.

5. SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services in a particular business sector (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's primary basis of segmentation in business segments, which are based on the Group's management and internal reporting structures.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate head office assets and liabilities, borrowings, income taxes payable, deferred taxes and dividends payable/receivable.

The Group's principal operations are based in Kazakhstan, with MKM being based in Germany.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

5. SEGMENT INFORMATION continued

The Group's activities principally relate to:

- Kazakhmys Copper operations which involve the production and sale of:
 - copper cathodes and copper rod,
 - zinc metal and zinc metal in concentrate,
 - gold and silver, and
 - other by-products (lead, rhenium, selenium, cadmium and sulphuric acid);
- Kazakhstan and Central Asia gold production, exploration and development activity;
- Kazakhstan oil and gas exploration and development activity;
- German copper processing operation.

Segmental information is also provided in respect of revenues, by destination and by product. Segmental information relating to employees is provided in note 8.

(a) BUSINESS SEGMENTS

In the year ended 31 December 2007, the Group operated the following four business segments:

KAZAKHMYS COPPER (PREVIOUSLY KNOWN AS KAZAKH MINING)

The Kazakhmys Copper business, which involves the processing and sale of copper and other metals, is managed as one business segment. The products are subject to the same risks and returns, exhibit similar long-term financial performance and are sold through the same distribution channels. The Group processes substantially all the copper ore it produces and utilises most of the copper concentrate it processes. The Group has a number of activities that exist solely to support the mining operations including power generation, coal mining and transportation. These other activities generate less than 10% of total revenues (both external and internal) and the related assets are less than 10% of total assets.

The UK operation consists of two functions:

- a trading function responsible for the purchases of products from the Kazakhmys Copper operations, application of an appropriate mark-up and then onward sale to third parties; and
- a corporate head office function.

For the purposes of business segmental reporting, the trading function is regarded as a sales function on behalf of the Kazakhmys Copper business and consequently the assets and liabilities related to those trading operations, i.e. trade creditors and trade receivables, are included within the Kazakhmys Copper business segment. The expenses, assets and liabilities of the corporate head office function are disclosed separately as unallocated items.

The price at which sales are made to the Company by Kazakhmys LLC is based on the prevailing price of commodities as determined by the LME.

KAZAKHMYS GOLD

In September 2007, the Group completed the acquisition of Eurasia Gold Inc. (see note 4). The principal activities of Eurasia Gold (subsequently renamed Kazakhmys Gold) and its subsidiaries is the mining and processing of gold ore into refined ore and exploration and development activity in the precious metal sector within the Central Asia region.

KAZAKHMYS PETROLEUM

In April 2007, the Group acquired Kazakhmys Petroleum LLP (previously called Dostan-Temir LLP), a company which holds a licence to conduct oil and gas exploration and development activity in the East Akzhar exploration block in western Kazakhstan.

MKM

MKM operates in Germany, where it manufactures copper and copper alloy semi-finished products. MKM faces different risks to the Group's other businesses and is therefore shown as a separate business segment.

In the year ended 31 December 2006, the Group operated two business segments: Kazakhmys Copper and MKM.

5. SEGMENT INFORMATION *continued*

(i) INCOME STATEMENT INFORMATION

					2007
\$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Total
Sales to external customers	3,588.3	1,643.0	25.3	–	5,256.6
Gross profit	2,359.3	61.3	3.8	–	2,424.4
Operating costs	(382.4)	(51.0)	(3.0)	(1.4)	(437.8)
Segment results	1,976.9	10.3	0.8	(1.4)	1,986.6
Unallocated corporate income (net) ¹					61.8
Profit before taxation and finance items					2,048.4
Net finance costs					(22.5)
Profit before taxation					2,025.9
Income tax expense					(599.2)
Profit for the year					1,426.7

¹ Includes dividend income of \$93.9 million from ENRC PLC.

				2006
\$ million	Kazakhmys Copper	MKM	Total	
Sales to external customers	3,330.4	1,716.1	5,046.5	
Gross profit	2,364.5	69.6	2,434.1	
Operating costs	(282.4)	(48.0)	(330.4)	
Segment results	2,082.1	21.6	2,103.7	
Unallocated corporate costs			(32.1)	
Profit before taxation, finance items and negative goodwill			2,071.6	
Net finance income			89.7	
Recognition of negative goodwill			6.5	
Profit before taxation			2,167.8	
Income tax expense			(754.7)	
Profit for the year			1,413.1	

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

5. SEGMENT INFORMATION continued

(ii) BALANCE SHEET INFORMATION

\$ million	At 31 December 2007				
	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Total
Assets					
Tangible and intangible assets	2,124.9	171.8	295.0	482.5	3,074.2
Non-current investments	9.9	2.0	0.3	–	12.2
Operating assets ¹	1,038.7	386.1	17.4	0.5	1,442.7
Current investments	57.3	–	–	–	57.3
Cash and cash equivalents	216.9	6.7	13.6	20.9	258.1
Segment assets	3,447.7	566.6	326.3	503.9	4,844.5
Unallocated assets					
Non-current assets – Corporate					4,391.5
Dividends receivable – Corporate					142.6
Current assets – Corporate					7.1
Cash and cash equivalents – Corporate					180.4
Elimination					(2,212.5)
Total assets					7,353.6
Liabilities					
Employee benefits and provisions	112.3	8.8	1.6	26.4	149.1
Operating liabilities ²	304.2	40.9	2.2	0.9	348.2
Segment liabilities	416.5	49.7	3.8	27.3	497.3
Unallocated liabilities					
Other payables – Corporate					109.8
Deferred tax liability – Group					283.0
Borrowings – Group					197.5
Income tax payable – Group					65.3
Elimination					(232.5)
Total liabilities					920.4

¹ Operating assets include inventories, trade and other receivables and prepayments and other current assets.

² Operating liabilities include trade and other payables and dividends payable by subsidiaries to the Company.

5. SEGMENT INFORMATION continued

\$ million	At 31 December 2006		
	Kazakhmys Copper	MKM	Total
Assets			
Tangible and intangible assets	1,816.1	166.1	1,982.2
Non-current investments	3.5	2.7	6.2
Operating assets ¹	713.4	395.2	1,108.6
Current investments	1,237.2	–	1,237.2
Cash and cash equivalents	405.0	30.0	435.0
Segment assets	4,175.2	594.0	4,769.2
Unallocated assets			
Non-current assets – Corporate			1,156.3
Dividends receivable – Corporate			304.5
Current assets – Corporate			6.0
Cash and cash equivalents – Corporate			350.4
Elimination			(1,465.9)
Total assets			5,120.5
Liabilities			
Employee benefits and provisions	85.0	7.0	92.0
Operating liabilities ²	599.5	37.9	637.4
Segment liabilities	684.5	44.9	729.4
Unallocated liabilities			
Other payables – Corporate			12.0
Deferred tax liability – Group			347.7
Borrowings – Group			277.3
Income tax payable – Group			176.9
Elimination			(314.6)
Total liabilities			1,228.7

¹ Operating assets include inventories, trade and other receivables and prepayments and other current assets.

² Operating liabilities include trade and other payables and dividends payable by subsidiaries to the Company.

(iii) EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA) EXCLUDING SPECIAL ITEMS¹ BY BUSINESS SEGMENTS

\$ million	2007					
	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated ²	Total
Profit/(loss) before taxation and finance items	1,976.9	10.3	0.8	(1.4)	61.8	2,048.4
Special items:						
Add: write off of property, plant and equipment	25.1	–	–	1.1	–	26.2
Less: gain on disposal of property, plant and equipment	(1.8)	–	–	–	–	(1.8)
Profit/(loss) before taxation and finance items excluding special items	2,000.2	10.3	0.8	(0.3)	61.8	2,072.8
Add: depreciation and depletion	230.7	23.3	5.6	–	1.1	260.7
Add: amortisation	2.5	0.2	0.1	–	–	2.8
EBITDA excluding special items	2,233.4	33.8	6.5	(0.3)	62.9	2,336.3

¹ EBITDA excluding special items is defined as profit before interest, taxation, depreciation and amortisation, as adjusted for special items. Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business.

² Includes dividend income of \$93.9 million from ENRC PLC.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

5. SEGMENT INFORMATION continued

	2006			
\$ million	Kazakhmys Copper	MKM	Corporate unallocated	Total
Profit/(loss) before taxation, finance items and negative goodwill	2,082.1	21.6	(32.1)	2,071.6
Special items:				
Add: write off of property, plant and equipment	1.4	–	–	1.4
Add: loss on disposal of property, plant and equipment	8.9	0.1	0.6	9.6
Profit/(loss) before taxation, finance items and negative goodwill excluding special items	2,092.4	21.7	(31.5)	2,082.6
Add: depreciation and depletion	200.8	21.8	0.4	223.0
Add: amortisation	2.4	0.4	–	2.8
EBITDA excluding special items	2,295.6	43.9	(31.1)	2,308.4

(iv) NET LIQUID FUNDS/(DEBT) BY BUSINESS SEGMENTS

	At 31 December 2007					
\$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
Cash and cash equivalents	216.9	6.7	13.6	20.9	180.4	438.5
Current investments	57.3	–	–	–	–	57.3
Borrowings	–	(195.9)	(1.6)	–	(1,265.0)	(1,462.5)
Inter-segment borrowings ¹	–	–	–	–	1,265.0	1,265.0
Net liquid funds/(debt)	274.2	(189.2)	12.0	20.9	180.4	298.3

¹ Borrowings of Corporate unallocated include amounts borrowed from the Kazakhmys Copper segment.

	At 31 December 2006			
\$ million	Kazakhmys Copper	MKM	Corporate unallocated	Total
Cash and cash equivalents	405.0	30.0	350.4	785.4
Current investments	1,237.2	–	–	1,237.2
Borrowings	–	(359.9)	–	(359.9)
Inter-segment borrowings ¹	–	82.6	–	82.6
Net liquid funds/(debt)	1,642.2	(247.3)	350.4	1,745.3

¹ Borrowings of MKM include amounts borrowed from the Kazakhmys Copper segment.

(v) CAPITAL EXPENDITURE, DEPRECIATION, WRITE OFFS AND IMPAIRMENT LOSSES BY BUSINESS SEGMENTS

	2007					
\$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
Property, plant and equipment	431.6	11.0	2.1	7.2	3.2	455.1
Mining assets	27.6	–	2.0	–	–	29.6
Intangible assets	10.2	–	3.6	476.4	3.5	493.7
Capital expenditure	469.4	11.0	7.7	483.6	6.7	978.4
Depreciation and depletion	230.7	23.3	5.6	–	1.1	260.7
Amortisation	2.5	0.2	0.1	–	–	2.8
Depreciation, depletion and amortisation	233.2	23.5	5.7	–	1.1	263.5
Write offs and impairment losses	28.3	0.7	–	1.1	–	30.1

5. SEGMENT INFORMATION continued

	2006			
\$ million	Kazakhmys Copper	MKM	Corporate unallocated	Total
Property, plant and equipment	271.5	4.4	5.2	281.1
Mining assets	63.6	–	–	63.6
Intangible assets	8.8	0.2	–	9.0
Capital expenditure	343.9	4.6	5.2	353.7
Depreciation and depletion	200.8	21.8	0.4	223.0
Amortisation	2.4	0.4	–	2.8
Depreciation, depletion and amortisation	203.2	22.2	0.4	225.8
Write offs and impairment losses	8.3	1.6	–	9.9

(b) GEOGRAPHICAL SEGMENTS

(i) INCOME STATEMENT INFORMATION

	2007				
\$ million	Central Asia ¹	Germany	UK	Netherlands ²	Total
Revenues³					
Segment sales	3,523.0	1,643.0	3,195.9	–	8,361.9
Inter-segment sales	(3,105.3)	–	–	–	(3,105.3)
Sales to external customers	417.7	1,643.0	3,195.9	–	5,256.6
Gross profit	2,279.3	61.3	83.8	–	2,424.4
Operating (costs)/income	(362.6)	(51.0)	(56.1)	93.7	(376.0)
Profit before taxation and finance items	1,916.7	10.3	27.7	93.7	2,048.4
Net finance costs					(22.5)
Profit before taxation					2,025.9
Income tax expense					(599.2)
Profit for the year					1,426.7

¹ Includes Kazakhstan, Kyrgyzstan and Tajikistan.

² Includes dividend income of \$93.9 million from ENRC PLC.

³ Revenues are analysed by origin of sale. Refer to note 5(e) where revenue is analysed by location of customer.

	2006			
\$ million	Kazakhstan	Germany	UK	Total
Revenues¹				
Segment sales	3,292.4	1,716.1	2,691.9	7,700.4
Inter-segment sales	(2,653.9)	–	–	(2,653.9)
Sales to external customers	638.5	1,716.1	2,691.9	5,046.5
Gross profit	2,333.8	69.6	30.7	2,434.1
Operating costs	(275.8)	(48.0)	(38.7)	(362.5)
Profit/(loss) before taxation, finance items and negative goodwill	2,058.0	21.6	(8.0)	2,071.6
Net finance income				89.7
Recognition of negative goodwill				6.5
Profit before taxation				2,167.8
Income tax expense				(754.7)
Profit for the year				1,413.1

¹ Revenues are analysed by origin of sale. Refer to note 5(e) where revenue is analysed by location of customer.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

5. SEGMENT INFORMATION continued

(ii) BALANCE SHEET INFORMATION

\$ million	At 31 December 2007				
	Central Asia ¹	Germany	UK	Netherlands	Total
Assets					
Tangible and intangible assets	2,902.4	171.8	7.1	3.5	3,084.8
Non-current investments	10.2	2.0	2,818.7	3,175.9	6,006.8
Operating assets ²	1,062.6	386.1	273.9	0.1	1,722.7
Current investments	57.3	–	–	–	57.3
Cash and cash equivalents	203.9	6.7	133.8	94.1	438.5
Segment assets	4,236.4	566.6	3,233.5	3,273.6	11,310.1
Elimination					(3,956.5)
Total assets					7,353.6
Liabilities					
Employee benefits and provisions	140.3	8.8	–	–	149.1
Operating liabilities ³	300.8	40.9	153.2	90.0	584.9
Segment liabilities	441.1	49.7	153.2	90.0	734.0
Unallocated liabilities					348.3
Borrowings					197.5
Elimination					(359.4)
Total liabilities					920.4

¹ Includes Kazakhstan, Kyrgyzstan and Tajikistan.

² Operating assets include inventories, trade and other receivables and prepayments and other current assets.

³ Operating liabilities include trade and other payables and dividends payable by subsidiaries to the Company.

\$ million	At 31 December 2006			
	Kazakhstan	Germany	UK	Total
Assets				
Tangible and intangible assets	1,816.1	166.1	5.0	1,987.2
Non-current investments	3.5	2.7	1,151.3	1,157.5
Operating assets ¹	702.7	395.2	410.7	1,508.6
Current investments	1,237.2	–	–	1,237.2
Cash and cash equivalents	326.1	30.0	429.3	785.4
Segment assets	4,085.6	594.0	1,996.3	6,675.9
Elimination				(1,555.4)
Total assets				5,120.5
Liabilities				
Employee benefits and provisions	85.0	7.0	–	92.0
Operating liabilities ²	505.6	37.9	184.6	728.1
Segment liabilities	590.6	44.9	184.6	820.1
Unallocated liabilities				524.6
Borrowings				277.3
Elimination				(393.3)
Total liabilities				1,228.7

¹ Operating assets include inventories, trade and other receivables and prepayments and other current assets.

² Operating liabilities include trade and other payables and dividends payable by subsidiaries to the Company.

5. SEGMENT INFORMATION *continued*

(iii) NET LIQUID FUNDS/(DEBT) BY GEOGRAPHICAL SEGMENTS

\$ million	At 31 December 2007				
	Central Asia ¹	Germany	UK	Netherlands	Total
Cash and cash equivalents	203.9	6.7	133.8	94.1	438.5
Current investments	57.3	–	–	–	57.3
Borrowings	(1.6)	(195.9)	(1,265.0)	–	(1,462.5)
Inter-segment borrowings	–	–	1,265.0	–	1,265.0
Net liquid funds/(debt)	259.6	(189.2)	133.8	94.1	298.3

¹ Includes Kazakhstan, Kyrgyzstan and Tajikistan.

\$ million	Year ended 31 December 2006			
	Kazakhstan	Germany	UK	Total
Cash and cash equivalents	326.1	30.0	429.3	785.4
Current investments	1,237.2	–	–	1,237.2
Borrowings	–	(359.9)	–	(359.9)
Inter-segment borrowings	–	82.6	–	82.6
Net liquid funds/(debt)	1,563.3	(247.3)	429.3	1,745.3

(iv) CAPITAL EXPENDITURE, DEPRECIATION, WRITE OFFS AND IMPAIRMENT LOSSES BY GEOGRAPHICAL SEGMENTS

\$ million	At 31 December 2007				
	Central Asia ¹	Germany	UK	Netherlands	Total
Property, plant and equipment	440.9	11.0	3.2	–	455.1
Mining assets	29.6	–	–	–	29.6
Intangible assets	490.2	–	–	3.5	493.7
Capital expenditure	960.7	11.0	3.2	3.5	978.4
Depreciation and depletion	236.3	23.3	1.1	–	260.7
Amortisation	2.6	0.2	–	–	2.8
Depreciation, depletion and amortisation	238.9	23.5	1.1	–	263.5
Write offs and impairment losses	29.4	0.7	–	–	30.1

¹ Includes Kazakhstan, Kyrgyzstan and Tajikistan.

\$ million	Year ended 31 December 2006			
	Kazakhstan	Germany	UK	Total
Property, plant and equipment	271.5	4.4	5.2	281.1
Mining assets	63.6	–	–	63.6
Intangible assets	8.8	0.2	–	9.0
Capital expenditure	343.9	4.6	5.2	353.7
Depreciation and depletion	200.8	21.8	0.4	223.0
Amortisation	2.4	0.4	–	2.8
Depreciation, depletion and amortisation	203.2	22.2	0.4	225.8
Write offs and impairment losses	8.3	1.6	–	9.9

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

5. SEGMENT INFORMATION continued

(c) SEGMENTAL INFORMATION IN RESPECT OF REVENUES

Revenues by product are as follows:

\$ million	2007	2006
Kazakhmys Copper		
Copper cathodes	2,516.2	2,389.0
Silver in granules	256.5	239.1
Copper rods	250.6	196.1
Zinc metal in concentrate	200.5	128.0
Zinc metal	123.8	201.3
Gold bullion	80.3	51.2
Other by-products	86.4	38.1
Other revenue	74.0	87.6
	3,588.3	3,330.4
MKM		
Wire	763.2	925.8
Sheet steel and steel strips	509.0	432.8
Tubes and bars	318.8	272.9
Metal trade	52.0	84.6
	1,643.0	1,716.1
Kazakhmys Gold		
Gold doré	25.0	—
Silver	0.3	—
	25.3	—
Total revenues	5,256.6	5,046.5

(d) PROVISIONAL PRICING

Almost all copper sales agreements provide for provisional pricing of sales in the month of sale with final pricing settlement based on the average LME copper price for the month following the sale.

For the year ended 31 December 2007 gains of \$84.3 million (2006: \$49.8 million), relating to the difference between provisional pricing and final pricing, have been included within revenues.

At 31 December 2007, copper sales totalling 14,295 tonnes (2006: 4,262 tonnes) remained to be finally priced and were recorded at that date at an average price of \$7,359 per tonne (2006: \$6,761 per tonne) based on provisional invoices. The loss arising in January 2008 of \$1.2 million (2006: loss of \$4.8 million) relating to contracts provisionally priced in December 2007 will be recognised in the financial statements for the year ended 31 December 2008.

(e) REVENUES BY DESTINATION

\$ million	2007			
	Europe	China	Other	Total
Sales to third parties	3,137.5	1,460.3	658.8	5,256.6
\$ million	2006			
	Europe	China	Other	Total
Sales to third parties	3,770.1	641.8	634.6	5,046.5

6. COST OF SALES, ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME/EXPENSES

The following tables analyse the major components of cost of sales, administrative expenses and other operating income/expenses:

(a) COST OF SALES

\$ million	2007	2006
Raw materials	2,118.2	2,197.4
Employee salaries and payroll taxes	275.3	229.7
Depreciation, depletion and amortisation	239.4	205.4
Production overheads	165.2	107.0
Utilities	66.6	48.2
Royalties and other taxes	26.7	24.6
Change in work in progress and finished goods	(59.2)	(199.9)
	2,832.2	2,612.4

(b) ADMINISTRATIVE EXPENSES

\$ million	2007	2006
Employee salaries and payroll taxes	123.1	102.1
Legal and professional	45.5	26.0
Social responsibility costs	37.6	18.5
Levies and charges	32.7	38.5
Depreciation and amortisation	24.1	20.4
Medical and social support	15.0	14.0
Personal injury claims	13.5	12.0
Business travel	11.7	7.8
Supplies	10.1	8.3
Transportation	8.4	4.0
Social contributions	6.0	1.8
Utilities	4.6	3.0
Communication	3.5	2.0
Bank fees	2.9	3.1
Other	21.3	19.3
	360.0	280.8

(c) OTHER OPERATING INCOME

\$ million	2007	2006
Dividend income from available for sale investments	93.9	–
Supplies	13.3	16.1
Sanatorium, medical and canteen	2.3	8.1
Gain on disposal of property, plant and equipment	1.8	–
Utilities	1.7	5.0
Derecognition of payables	1.4	3.8
Railway services	1.4	0.5
Gain on disposal of assets held for trading	0.5	–
Other	19.7	11.2
	136.0	44.7

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

6. COST OF SALES, ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME/EXPENSES continued

(d) OTHER OPERATING EXPENSES

\$ million	2007	2006
Supplies	12.5	12.2
Sanatorium, medical and canteen	8.4	7.2
Utilities	3.6	3.8
Railway services	1.2	0.2
Loss on disposal of property, plant and equipment	–	9.6
Other	14.8	2.1
	40.5	35.1

7. WRITE OFFS AND IMPAIRMENT LOSSES

\$ million	2007	2006
Write off of property, plant and equipment	26.2	1.4
Provisions against/(release of provisions for) trade and other receivables	2.3	(8.3)
Provisions against prepayments and other current assets	1.6	0.1
Release of impairment of investments	–	(1.9)
Provisions against obsolete inventories	–	18.6
	30.1	9.9

8. EMPLOYEE INFORMATION

\$ million	2007	2006
Wages and salaries	386.3	317.5
Social security costs	29.2	23.7
Post-employment benefits	4.0	3.4
	419.5	344.6

Other non-monetary employee benefits (including sanatorium visits, medical services, nourishment and treatment expenses) are also provided by Kazakhmys LLC, and are included in the income statement in the expense line relating to the nature of the cost.

8. EMPLOYEE INFORMATION *continued*

The average weekly number of employees during the year was as follows:

	2007	2006
Kazakhmys Copper		
Mining	14,701	13,967
Concentration	5,176	5,024
Smelting	6,027	6,224
Transport	5,484	6,304
Maintenance and services	20,235	20,583
Construction	3,476	4,715
Administration, social sphere and other	7,592	6,593
	62,691	63,410
MKM		
Production	662	671
Maintenance and services	219	223
Administration and other	164	151
	1,045	1,045
Kazakhmys Gold		
Production	1,436	–
Administration and other	131	–
	1,567	–
Kazakhmys Petroleum		
Operations	23	–
Administration and other	13	–
	36	–
Corporate		
Administration and other	97	53
	97	53
Total employees	65,436	64,508
Analysed as		
Central Asia ¹	64,342	63,433
Germany	1,045	1,045
UK	42	26
Netherlands	1	–
China	6	4
	65,436	64,508

¹ Includes Kazakhstan, Kyrgyzstan and Tajikistan.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

9. DIRECTORS' REMUNERATION

Disclosures on Directors' remuneration required by the Companies Acts 1985 and 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report and form part of these consolidated financial statements. The Directors are regarded as the key management personnel of the Group.

10. AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the year ended 31 December 2007 was \$3.9 million (2006: \$3.1 million), made up as follows:

\$ million	2007	2006
Ernst & Young LLP		
Audit	2.2	2.2
Assurance related services	0.4	0.5
Transaction advisory services	1.3	0.3
Taxation services	–	0.1
	3.9	3.1

GROUP

For the year ended 31 December 2007, Ernst & Young LLP rendered assurance related services relating to the review of the interim report amounting to \$0.3 million (2006: \$0.4 million) and the review of the special interim accounts for the Company of \$0.1 million (2006: \$0.1 million). Ernst & Young LLP provided transaction advisory services of \$1.3 million (2006: \$0.3 million) principally relating to the provision of due diligence services in respect of the acquisition of an 18.8% interest in ENRC from Vladimir Kim in October 2007 prior to the exercise of the option.

COMPANY

The auditor's remuneration for the Company was \$2.7 million (2006: \$1.6 million) which related to \$1.1 million for audit services (2006: \$1.0 million), \$0.3 million for assurance related services (2006: \$0.3 million) and \$1.3 million for transaction advisory services (2006: \$0.3 million).

11. FINANCE INCOME AND FINANCE COSTS

\$ million	2007	2006
Finance income		
Interest income	93.9	78.5
Foreign exchange gains	166.2	188.3
Total finance income	260.1	266.8
Finance costs		
Interest expense	(13.7)	(8.0)
Interest on employee obligations	(3.4)	(3.0)
Unwinding of discount on provisions	(7.1)	(4.2)
Finance costs before foreign exchange losses	(24.2)	(15.2)
Foreign exchange losses	(258.4)	(161.9)
Total finance costs	(282.6)	(177.1)

12. INCOME TAX

(a) INCOME TAX EXPENSE

Major components of income tax expense for the years presented are:

\$ million	2007	2006
Current income tax		
Corporate income tax – current period (UK)	17.7	5.2
Corporate income tax – current period (overseas)	696.3	653.5
Corporate income tax – prior periods	(27.8)	0.4
Excess profits tax – current period	51.7	77.3
Excess profits tax – prior periods	(9.0)	(49.4)
	728.9	687.0
Deferred income tax		
Corporate income tax – current period	(115.0)	63.0
Corporate income tax – prior periods	(8.5)	17.1
Excess profits tax – current period	(6.2)	(12.4)
	(129.7)	67.7
Income tax expense	599.2	754.7

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the tax jurisdictions in which the Group operates, principally due to a non-recurring release of a deferred tax liability subsequent to a Group restructuring in Germany and the lowering of the tax rate in Germany thereby releasing a further deferred tax liability.

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the periods presented is as follows:

\$ million	2007	2006
Profit before taxation	2,025.9	2,167.8
At statutory income tax rate of 30%	607.8	650.3
(Over)/underprovided in previous years – current income tax	(27.8)	0.4
(Over)/underprovided in previous years – deferred income tax	(8.5)	17.1
(Use of previously unrecognised)/unrecognised tax losses	(30.8)	10.4
Effect of domestic tax rates applicable to individual Group entities	(1.2)	0.5
Change in tax rates	(10.9)	–
Unremitted overseas earnings	–	91.8
Non deductible expenses/(non taxable income):		
Non taxable income on zinc plant	(26.2)	(46.4)
Recognition of negative goodwill	–	(2.0)
Non deductible expenses	60.3	17.1
Excess profits tax	36.5	15.5
At effective income tax rate of 29.6% (2006: 34.8%)	599.2	754.7

Corporate income tax is calculated at 30% of the assessable profit for the period for the Company and operating subsidiaries in Kazakhstan. The MKM tax rate is calculated at 37.34% (2006: 35.98%) and relates to German corporate income tax and trade tax.

Excess profits tax is levied on profitable subsoil contracts where the cumulative internal rate of return for the current year exceeds 20% in a given period. The effective rate for excess profits tax for those subsoil contracts liable to this tax is 15% (2006: 13%).

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

12. INCOME TAX continued

(b) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

The amounts of deferred taxation assets/(liabilities) provided in the financial statements are as follows:

\$ million	2007	2006
Intangible assets	(23.8)	(7.3)
Property, plant and equipment	(180.2)	(201.7)
Mining assets	(34.6)	(3.8)
Available for sale investments	–	–
Inventories	(20.3)	(22.7)
Trade and other receivables	9.6	5.1
Provisions	27.1	19.1
Borrowings	–	(44.0)
Taxes payable	1.6	1.9
Tax losses	5.5	1.7
Unremitted overseas earnings	(69.0)	(91.8)
	(284.1)	(343.5)
Deferred excess profits tax – property, plant and equipment	(8.4)	(20.6)
Deferred excess profits tax – taxes paid and accrued	9.5	16.4
	1.1	(4.2)
Deferred tax liability, net	(283.0)	(347.7)

The movement in the net deferred tax liability in the financial statements is as follows:

\$ million	2007	2006
As at 1 January	347.7	260.9
Business acquisition	46.8	1.0
(Credited)/charged to the income statement	(129.7)	67.7
Net exchange adjustment	18.2	18.1
As at 31 December	283.0	347.7

(c) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets not recognised in the accounts are as follows:

\$ million	2007	2006
Germany – tax losses		
Corporate income tax	209.0	612.4
Trade tax	168.4	536.2
Total losses carried forward	377.4	1,148.6
UK		
Excess foreign tax credits	55.2	12.4
Total	432.6	1,161.0

12. INCOME TAX continued

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

(i) GERMANY

MKM has at 31 December 2007 corporate income tax losses that can be carried forward and used against future taxable profits, subject to restrictions set out under German tax legislation. There is no time restriction over the utilisation of tax losses.

Due to the past history of tax losses, there is insufficient certainty that a taxable profit will arise against which the losses can be offset. For these reasons no deferred tax asset has been recognised.

(ii) UNITED KINGDOM

The payment of the dividends from Kazakhmys LLC to the Company has created excess foreign tax credits of \$55.2 million (2006: \$12.4 million) which have arisen due to the higher effective tax rate in Kazakhstan compared to the UK as well as withholding taxes payable on dividends remitted from Kazakhstan to the UK. These excess foreign tax credits do not expire.

(d) UNRECOGNISED DEFERRED TAX LIABILITY

The Group has not recognised all of the deferred tax liability in respect of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

The gross temporary differences in respect of the undistributed reserves of the Group's subsidiaries, as shown in their statutory accounts prepared in accordance with applicable accounting standards, are as follows:

\$ million	2007	2006
Undistributed reserves of subsidiaries	2,635.8	1,165.5

13. EARNINGS PER SHARE

(a) BASIC AND DILUTED EPS

Basic EPS is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. The Company has no dilutive potential ordinary shares.

The following reflects the income and share data used in the EPS computations:

\$ million	2007	2006
Net profit attributable to equity shareholders of the Company	1,415.7	1,399.7
Number	2007	2006
Weighted average number of ordinary shares of 20 pence each for EPS calculation	466,073,506	467,474,200
EPS – basic and diluted (\$)	3.04	2.99

(b) EPS BASED ON UNDERLYING PROFIT

The Group's Underlying Profit is the profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and minority interest effects, as shown in the table below. EPS based on Underlying Profit is calculated by dividing Underlying Profit by the weighted average number of ordinary shares of 20 pence each outstanding during the year. The Directors believe EPS based on Underlying Profit provides a more consistent measure for comparing the underlying trading performance of the Group.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

13. EARNINGS PER SHARE continued

The following shows the reconciliation of Underlying Profit from the reported profit and the share data used in the computations for EPS based on Underlying Profit:

\$ million	2007	2006
Net profit attributable to equity shareholders of the Company	1,415.7	1,399.7
Special items:		
Recognition of negative goodwill	–	(6.5)
Write off of property, plant and equipment	26.2	1.4
(Gain)/loss on disposal of property, plant and equipment	(1.8)	9.6
Tax effect of non-recurring items	0.3	(1.5)
Release of deferred tax liability following Group restructuring	(30.8)	–
Minority interest effect of non-recurring items	(0.1)	–
Underlying Profit	1,409.5	1,402.7
Number	2007	2006
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	466,073,506	467,474,200
EPS based on Underlying Profit – basic and diluted (\$)	3.02	3.00

14. DIVIDENDS PAID AND PROPOSED

(a) DIVIDEND PAID

The dividends declared and paid during the years ended 31 December 2007 and 2006 are as follows:

	Per share US cents	Amount \$ million
Year ended 31 December 2007		
Final dividend in respect of year ended 31 December 2006	25.7	120.1
Interim dividend in respect of year ended 31 December 2007	13.6	64.0
Special dividend in respect of year ended 31 December 2007	50.0	235.0
	89.3	419.1
Year ended 31 December 2006		
Final dividend in respect of year ended 31 December 2005	36.0	168.3
Interim dividend in respect of year ended 31 December 2006	12.8	59.8
	48.8	228.1

(i) YEAR ENDED 31 DECEMBER 2007

On 14 May 2007, the Company paid the final dividend of \$120.1 million in respect of the year ended 31 December 2006 to shareholders on the register as at 13 April 2007. This final dividend was sourced by way of payment of the interim dividend in respect of the year ended 31 December 2006 by Kazakhmys LLC.

On 5 October 2007, the Company paid an interim and special dividend of \$299.0 million in respect of the year ended 31 December 2007 to shareholders on the register as at 14 September 2007. These dividends were sourced by way of payment of the final dividend in respect of the year ended 31 December 2006 and an interim dividend in respect of the year ended 31 December 2007 by Kazakhmys LLC.

(ii) YEAR ENDED 31 DECEMBER 2006

On 26 May 2006 the Company paid the final dividend of \$168.3 million in respect of the year ended 31 December 2005 to shareholders on the register as at 28 April 2006. This final dividend was sourced by way of payment of the interim dividend in respect of the year ended 31 December 2005 by Kazakhmys LLC.

On 27 October 2006, the Company paid an interim dividend of \$59.8 million in respect of the year ended 31 December 2006 to shareholders on the register as at 29 September 2006. This interim dividend was sourced by way of payment of the final dividend in respect of the year ended 31 December 2005 by Kazakhmys LLC.

(b) DIVIDENDS DECLARED AFTER THE BALANCE SHEET DATE

	Per share US cents	Amount \$ million
Proposed by the Directors on 5 March 2008 (not recognised as a liability as at 31 December 2007):		
Final dividend in respect of year ended 31 December 2007	27.4	126.1

In relation to the dividends proposed by the Directors on 5 March 2008, the UK pounds sterling per ordinary share amount is 13.8073 pence.

15. INTANGIBLE ASSETS

\$ million	Goodwill	Licences	Other	Total
Cost				
At 1 January 2006	–	18.3	7.2	25.5
Additions	–	8.8	0.2	9.0
Disposals	–	–	(0.2)	(0.2)
Net exchange adjustment	–	1.0	0.4	1.4
At 31 December 2006	–	28.1	7.6	35.7
Business acquisition	45.9	–	–	45.9
Additions	–	485.8	7.9	493.7
Disposals	–	–	(0.1)	(0.1)
Net exchange adjustment	–	1.8	0.5	2.3
At 31 December 2007	45.9	515.7	15.9	577.5
Amortisation				
At 1 January 2006	–	2.2	1.7	3.9
Amortisation charge	–	1.5	1.3	2.8
Disposals	–	–	(0.2)	(0.2)
Net exchange adjustment	–	0.2	0.1	0.3
At 31 December 2006	–	3.9	2.9	6.8
Amortisation charge	–	1.6	1.2	2.8
Disposals	–	–	(0.1)	(0.1)
Net exchange adjustment	–	0.3	0.2	0.5
At 31 December 2007	–	5.8	4.2	10.0
Net book value				
At 31 December 2007	45.9	509.9	11.7	567.5
At 31 December 2006	–	24.2	4.7	28.9

During the year ended 31 December 2007, the Group acquired licences totalling \$485.8 million (2006: \$8.8 million). Included within this amount is \$450.0 million in relation to the purchase of Kazakhmys Petroleum and the related four year oil and gas exploration licence, which together have been treated as an asset acquisition. Of the \$485.8 million, \$35.4 million (2006: \$8.6 million) was capitalised by the Group in respect of contractual reimbursements to the Government for geological information and social commitments. These latter amounts are non-cash items and are recorded within provisions for payments of licences.

The amortisation charge for the year is allocated to production expenses \$1.6 million (2006: \$1.5 million) and administrative expenses \$1.2 million (2006: \$1.3 million) as appropriate.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

16. PROPERTY, PLANT AND EQUIPMENT

\$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2006	716.1	1,110.0	194.1	261.6	2,281.8
Business acquisition	0.5	5.6	0.2	–	6.3
Additions	10.9	65.4	48.6	156.2	281.1
Transfers	104.2	24.2	(0.1)	(128.3)	–
Disposals	(4.2)	(7.1)	(10.6)	(0.8)	(22.7)
Write back/(off)	6.7	(8.0)	(0.2)	0.1	(1.4)
Net exchange adjustment	41.2	68.0	11.9	20.0	141.1
At 31 December 2006	875.4	1,258.1	243.9	308.8	2,686.2
Business acquisition	3.7	3.0	1.5	0.2	8.4
Additions	15.0	63.9	42.1	334.1	455.1
Transfers	18.5	20.7	1.0	(40.2)	–
Reclassifications	–	46.9	(46.9)	–	–
Disposals	(5.1)	(5.9)	(2.4)	(0.1)	(13.5)
Write off	(7.1)	(7.1)	(1.1)	(10.9)	(26.2)
Net exchange adjustment	55.4	82.7	15.6	22.0	175.7
At 31 December 2007	955.8	1,462.3	253.7	613.9	3,285.7
Depreciation					
At 1 January 2006	181.8	351.6	90.8	–	624.2
Depreciation charge	56.4	143.2	13.8	–	213.4
Disposals	(1.0)	(1.4)	(7.3)	–	(9.7)
Net exchange adjustment	12.2	25.8	5.5	–	43.5
At 31 December 2006	249.4	519.2	102.8	–	871.4
Depreciation charge	53.0	154.2	21.7	–	228.9
Reclassifications	–	41.1	(41.1)	–	–
Disposals	(2.3)	(3.6)	(1.4)	–	(7.3)
Net exchange adjustment	18.6	37.3	7.5	–	63.4
At 31 December 2007	318.7	748.2	89.5	–	1,156.4
Net book value					
At 31 December 2007	637.1	714.1	164.2	613.9	2,129.3
At 31 December 2006	626.0	738.9	141.1	308.8	1,814.8

(a) DEEMED COST OF ASSETS WITHIN KAZAKHMYS LLC

For the purpose of the transition to IFRS in 2002, the Directors commissioned an independent company which held a State licence to conduct valuations, to carry out an appraisal of property, plant and equipment as of 1 January 2002 to determine their deemed cost at that date.

The deemed cost of property, plant and equipment as of 1 January 2002 was determined primarily with reference to depreciated replacement cost. The Directors believe that the deemed cost reflected the economic conditions of the Group's property, plant and equipment at that time.

(b) FULLY DEPRECIATED ASSETS

At 31 December 2007, the cost of fully depreciated property, plant and equipment within Kazakhmys LLC was \$227.8 million (2006: \$141.9 million), within MKM was \$0.2 million and within other Group entities was \$nil.

(c) MKM INVESTMENT GRANTS AND SUBSIDIES

At 31 December 2007 within MKM, investment grants and subsidies received from the Government to the value of \$0.1 million (2006: \$2.2 million) were deducted against the cost of fixed assets which had a gross carrying value of \$16.3 million (2006: \$16.6 million).

(d) RECLASSIFICATIONS

The Group reviewed the classification of assets within property, plant and equipment and has reclassified \$46.9 million of assets from 'Plant and equipment' to 'Other' within cost and \$41.1 million within depreciation as at 1 January 2007.

17. MINING ASSETS

\$ million	Mine development costs	Mine stripping costs	Total
Cost			
At 1 January 2006	54.2	42.5	96.7
Additions	56.9	6.7	63.6
Disposals	–	(5.2)	(5.2)
Net exchange adjustment	2.6	2.3	4.9
At 31 December 2006	113.7	46.3	160.0
Business acquisition	238.6	–	238.6
Additions	2.1	27.5	29.6
Disposals	(1.1)	(19.0)	(20.1)
Net exchange adjustment	6.5	2.7	9.2
At 31 December 2007	359.8	57.5	417.3
Depletion			
At 1 January 2006	10.5	0.7	11.2
Depletion charge	4.5	5.1	9.6
Disposals	–	(5.2)	(5.2)
Net exchange adjustment	0.9	–	0.9
At 31 December 2006	15.9	0.6	16.5
Depletion charge	12.8	19.0	31.8
Disposals	(1.1)	(19.0)	(20.1)
Net exchange adjustment	1.0	0.1	1.1
At 31 December 2007	28.6	0.7	29.3
Net book value			
At 31 December 2007	331.2	56.8	388.0
At 31 December 2006	97.8	45.7	143.5

18. AVAILABLE FOR SALE INVESTMENTS

\$ million	Total
At 1 January 2007	–
Additions	806.3
Revaluation to fair value	1,594.7
At 31 December 2007	2,401.0

Following approval from the independent shareholders at an extraordinary general meeting on 19 October 2007, and receipt of regulatory approval from the Government, the Group acquired 18.8% of the shares in Eurasian Natural Resources Corporation PLC (ENRC) at a price of \$806.3 million on 26 October 2007.

At the time of the listing of ENRC on 12 December 2007, new shares were issued by ENRC which the Group did not subscribe to and hence the Group's interest in ENRC reduced from 18.8% to 14.6% of the issued capital of ENRC, taking into account the full exercise of the over-allotment option. The fair value of the ENRC shares is determined by reference to the published price quotation on the London Stock Exchange.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

19. OTHER NON-CURRENT INVESTMENTS

\$ million	Unlisted investments	Long-term securities	Long-term deposits	Total
Cost				
At 1 January 2006	4.0	3.5	1.5	9.0
Additions	–	0.7	–	0.7
Disposals	(1.9)	(0.7)	–	(2.6)
Net exchange adjustment	0.2	0.3	0.1	0.6
At 31 December 2006	2.3	3.8	1.6	7.7
Additions	4.6	1.9	2.0	8.5
Disposals	–	(1.4)	(1.6)	(3.0)
Net exchange adjustment	0.2	0.3	0.1	0.6
At 31 December 2007	7.1	4.6	2.1	13.8
Provision for impairment				
At 1 January 2006	3.2	–	–	3.2
Credit to the income statement	(1.9)	–	–	(1.9)
Net exchange adjustment	0.2	–	–	0.2
At 31 December 2006	1.5	–	–	1.5
Net exchange adjustment	0.1	–	–	0.1
At 31 December 2007	1.6	–	–	1.6
Net book value				
At 31 December 2007	5.5	4.6	2.1	12.2
At 31 December 2006	0.8	3.8	1.6	6.2

(a) UNLISTED INVESTMENTS

Kazakhmys LLC provided a loan of \$3.1 million to the owners of MAR LLP, a company which is participating in a Government tender with a view to acquiring the licence for the development of a copper deposit in the Zhambyl region of Kazakhstan. The loan is shown as an unlisted investment.

(b) LONG-TERM SECURITIES

As at 31 December 2007 corporate bonds amounting to \$1.5 million (2006: \$2.7 million) were held by MKM in order to fund future obligations arising from part-time contracts for older employees.

As at 31 December 2007 the Pension Fund of Kazakhmys JSC and Kazakhmys Insurance Company JSC held corporate bonds and securities of listed companies amounting to \$3.1 million (2006: \$1.1 million).

(c) LONG-TERM DEPOSITS

As required by the Group's site restoration obligations, the Group is obliged to deposit cash in restricted special purpose bank accounts that have been classified as long-term deposits.

20. INVENTORIES

\$ million	2007	2006
Raw materials and consumables	286.9	308.8
Work in progress	286.1	220.2
Finished goods	272.3	231.4
Gross value of inventories	845.3	760.4
Provisions for obsolete inventories	(30.2)	(29.8)
	815.1	730.6

The amount of inventories held as security for MKM borrowings is \$221.3 million (2006: \$240.9 million).

21. PREPAYMENTS AND OTHER CURRENT ASSETS

\$ million	2007	2006
Advances paid for goods and services	91.8	39.1
VAT reclaimable	103.0	58.5
Prepayments to related parties	12.5	9.8
Income tax reclaimable	–	1.6
Other	21.2	15.2
Gross value of prepayments and other current assets	228.5	124.2
Provision for impairment	(16.7)	(13.8)
	211.8	110.4

Provision for impairment as at 31 December 2007 includes a provision against the advances paid to Zhezkazganmunai, a related party (included within 'other companies' – see note 35), amounting to \$10.4 million (2006: \$9.8 million).

22. TRADE AND OTHER RECEIVABLES

\$ million	2007	2006
Trade receivable	346.8	253.9
Amounts due from related parties	50.1	27.3
Amounts due from third parties	296.7	226.6
Other receivables	19.1	38.2
Gross value of trade and other receivables	365.9	292.1
Provision for impairment of receivables	(33.0)	(28.6)
	332.9	263.5

Provision for impairment as at 31 December 2007 includes a provision on the receivables from JSC Water/Heat Supply, a related party by way of it being a company under trust management, amounting to \$17.9 million (2006: \$12.9 million).

The amount of trade receivables held as security for MKM borrowings is \$162.0 million (2006: \$154.2 million).

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

23. CURRENT INVESTMENTS

\$ million	Bank deposits	Assets held for trading	Total
At 1 January 2006	355.5	1.0	356.5
Additions	3,766.6	50.8	3,817.4
Disposals	(2,981.9)	(1.0)	(2,982.9)
Foreign exchange gain	33.4	–	33.4
Net exchange adjustment	13.1	(0.3)	12.8
At 31 December 2006	1,186.7	50.5	1,237.2
Additions	1,358.2	–	1,358.2
Disposals	(2,490.8)	(51.3)	(2,542.1)
Foreign exchange loss	(41.0)	–	(41.0)
Net exchange adjustment	44.2	0.8	45.0
At 31 December 2007	57.3	–	57.3

In December 2006 Kazakhmys LLC purchased securities of Exim Bank Kazakhstan amounting to \$50.5 million and on 14 March 2007, the whole amount of the securities was sold giving rise to a profit of \$0.5 million.

24. CASH AND CASH EQUIVALENTS

\$ million	2007	2006
Cash deposits with maturities of less than three months	189.5	647.3
Cash at bank	248.5	137.8
Petty cash	0.5	0.3
	438.5	785.4

Cash at bank principally earns interest based on daily bank deposit rates. Cash deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash deposits within Kazakhstan are held with leading financial institutions. Cash deposits held outside of Kazakhstan are principally held with Western European and US financial institutions and their triple 'A' rated managed liquidity funds.

25. SHARE CAPITAL AND RESERVES

(a) AUTHORISED AND ALLOTTED SHARE CAPITAL

	Number	£ million	\$ million
Authorised – At 31 December 2007 and 31 December 2006			
Ordinary shares of 20 pence each	750,000,000	150.0	–
Allotted and called up share capital			
At 31 December 2006	467,474,200	93.5	173.3
Shares issued	2,559,665	0.5	1.1
Purchase of Company's issued share capital	(9,910,577)	(2.0)	(4.1)
At 31 December 2007	460,123,288	92.0	170.3

In September 2007 the Company issued 2,559,665 ordinary shares of 20 pence each and paid \$11.5 million in consideration for the transfer to it of 227,959,211 participation shares in Kazakhmys LLC by minority shareholders. As a result of this, the Company's interest in Kazakhmys LLC increased from 99.08% as at 31 December 2006 to 99.73% as at 31 December 2007.

Commencing from 24 October 2007, the Company began a share buy-back programme. As at 31 December 2007, 9,910,577 ordinary shares had been bought-back and cancelled at a total cost of \$270.3 million including expenses.

25. SHARE CAPITAL AND RESERVES continued

(b) CAPITAL RESERVES

\$ million	Reserve fund	Net unrealised gains reserve	Currency translation reserve	Total
At 1 January 2006	9.4	–	147.9	157.3
Transfer to reserve fund	28.2	–	–	28.2
Currency translation differences	–	–	80.7	80.7
At 31 December 2006	37.6	–	228.6	266.2
Currency translation differences	–	–	223.1	223.1
Unrealised gain on available for sale investments	–	1,594.7	–	1,594.7
At 31 December 2007	37.6	1,594.7	451.7	2,084.0

(i) RESERVE FUND

In accordance with legislation of the Republic of Kazakhstan the reserve fund comprises prescribed transfers from retained earnings amounting to 15% of Kazakhmys LLC's charter capital. During the year ended 31 December 2006, the reserve fund was increased by \$28.2 million as a result of the contributions to the charter capital of Kazakhmys LLC (see note 25(c)).

(ii) NET UNREALISED GAINS RESERVE

The net unrealised gains reserve is used to record the fair value movements of available for sale investments.

(iii) FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not the US dollar into the Group's presentation currency.

(c) CAPITAL CONTRIBUTIONS TO CHARTER CAPITAL OF KAZAKHMYLS LLC

Between 31 January 2006 and 14 March 2006, the Company made contributions of \$186.8 million to its subsidiary, Kazakhmys LLC. Minority shareholders contributed a further \$1.6 million to the charter capital. As the Company took up the rights of minority shareholders who did not subscribe to the initial capital contribution, the Company's interest in Kazakhmys LLC increased from 98.68% at 1 January 2006 to 99.08% at 31 December 2006.

26. SHARE-BASED PAYMENT PLANS

During the year the Company established a Long Term Incentive Plan (LTIP) and a Deferred Share Bonus Plan (DSBP). The total expense for the year ended 31 December 2007 arising from these plans was \$0.1 million.

Both plans are discretionary benefits offered by the Company for the benefit of certain of its employees. Details of these plans are set out on page 59.

(a) LONG TERM INCENTIVE PLAN

Under the LTIP, awards over the Company's shares are granted to senior management of the Company at nil cost. The vesting of the awards is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies.

The first awards, granted on 3 December 2007, under the LTIP were made with either a two year vesting period or a three year vesting period. Awards over 11,226 shares were granted with a two year vesting period, and awards over 37,862 shares were granted with a three year vesting period.

The fair value of the share awards was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share performance.

The following table shows the movements in the number of awards over shares during the year:

Number	2007
Outstanding at 1 January 2007	–
Granted on 3 December 2007 – 2 year vesting period	11,226
Granted on 3 December 2007 – 3 year vesting period	37,862
Outstanding at 31 December 2007	49,088
Exercisable at 31 December 2007	–

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YEAR ENDED 31 DECEMBER 2007

26. SHARE-BASED PAYMENT PLANS continued

The following table lists the inputs to the model:

	Shares granted with a 2 year vesting period 2007	Shares granted with a 3 year vesting period 2007
Number of awards	11,226	37,862
Fair value at grant date	£7.326	£7.704
Share price at grant date	£13.45	£13.45
Exercise price	£nil	£nil
Expected volatility	42.1%	41.7%
Expected weighted average life at 31 December 2007	1.9 years	2.9 years

The award of shares are not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. On vesting of the award, the participants are entitled to cash equal to the value of dividends (excluding the dividend tax credit) that would have been paid on those shares between the grant date and the date of vesting. Therefore, expected dividend yield does not affect the valuation of the awards and has been set at zero to achieve this effect. Expected volatility is based on historic share price movements.

(b) DEFERRED SHARE BONUS PLAN

Shares under the DSBP are due to be granted to employees in March 2008 based on the deferred amount of an employee's 2007 cash bonus. The number of shares granted to employees will be based on the cash value of the deferred bonus and the average share price for a period of time prior to grant date in March 2008. The shares granted will normally be released after a period of two years after grant date, i.e. in March 2010. At 31 December 2007, the cash value of shares eligible for the DSBP, for which shares will be granted in March 2008, was \$0.4 million.

27. EMPLOYEE BENEFITS

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet for the respective plans:

\$ million	2007	2006
Kazakhstan (post-retirement benefits)	33.6	27.7
Germany (part-time contracts)	3.6	5.0

Recognised liability for employee benefit obligations	37.2	32.7
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KAZAKHSTAN

\$ million	2007	2006
Net liability at 1 January	27.7	23.1
Employer's share of current service cost	0.8	1.8
Net actuarial losses recognised in the period	1.4	–
Interest cost on benefit obligation	3.4	2.9
Benefits provided to employees	(1.3)	(1.3)
Net exchange adjustment	1.6	1.2

Net liability at 31 December	33.6	27.7
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GERMANY

\$ million	2007	2006
Net liability at 1 January	5.0	5.6
Employer's share of current service cost	0.9	0.8
Interest cost on benefit obligation	–	0.1
Benefits provided to employees	(2.7)	(2.1)
Net exchange adjustment	0.4	0.6

Net liability at 31 December	3.6	5.0
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27. EMPLOYEE BENEFITS continued

(a) KAZAKHSTAN

The Group provides post-retirement benefits in Kazakhstan which are unfunded. The actuarial losses on prior period service costs which existed as at 31 December 2007 amounted to \$16.8 million (2006: \$17.3 million). Key assumptions adopted in calculating the employee benefit liabilities and associated charges, as measured in Kazakhstan tenge, for the presented periods are as follows:

	2007 % per annum	2006 % per annum
Discount rate	7.50	7.50
Expected rate of annual material assistance increases	5.00	5.00
Expected rate of annual railway ticket price increases	5.00	5.00
Expected rate of increase in medical costs	7.50	7.50

The Group continues to pay the non-monetary benefits described in note 8.

(b) GERMANY

In Germany, MKM has obligations arising from part-time contracts for older employees that have been collectively agreed with the employees' trade union. Non-current investments amounting to \$1.5 million (2006: \$2.7 million) have been set aside to fund MKM's obligations relating to part-time contracts.

28. PROVISIONS

\$ million	Site restoration and clean up	Payments for licences	Other	Total
At 1 January 2006	24.6	21.0	0.3	45.9
Arising during the year	0.8	8.6	0.3	9.7
Utilised	(0.2)	(1.6)	(0.2)	(2.0)
Foreign exchange gain	—	(1.0)	—	(1.0)
Unwinding of discount	1.8	2.4	—	4.2
Net exchange adjustment	1.4	1.1	—	2.5
At 31 December 2006	28.4	30.5	0.4	59.3
Business acquisition	1.2	—	—	1.2
Arising during the year	9.9	35.4	0.2	45.5
Utilised	(0.1)	(3.3)	(0.2)	(3.6)
Foreign exchange gain	—	(2.0)	—	(2.0)
Unwinding of discount	2.6	4.5	—	7.1
Net exchange adjustment	2.0	2.3	0.1	4.4
At 31 December 2007	44.0	67.4	0.5	111.9
Current	2.6	11.3	0.3	14.2
Non-current	41.4	56.1	0.2	97.7
At 31 December 2007	44.0	67.4	0.5	111.9
Current	0.1	1.6	0.2	1.9
Non-current	28.3	28.9	0.2	57.4
At 31 December 2006	28.4	30.5	0.4	59.3

(a) SITE RESTORATION AND CLEAN UP

The costs of decommissioning and reclamation within Kazakhmys LLC and Kazakhmys Gold are based on the amounts included in the Group's contracts for subsoil use. The provision represents the discounted values of the estimated costs to decommission and reclaim the mines at the dates of depletion of each of the deposits. The present value of the provision has been calculated using a real discount rate of 3% (2006: 3%) per year. The liability becomes payable at the end of the useful life of each mine which ranges from four to 42 years. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, and the levels of discount and inflation rates.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

28. PROVISIONS continued

(b) PAYMENTS FOR LICENCES FOR MINING ASSETS

In accordance with its contracts for subsoil use, the Group is liable to repay the costs of geological information provided by the Government of Kazakhstan for licensed deposits. The total amount payable by Kazakhmys LLC and Kazakhmys Gold is discounted to its present value using a discount rate of 8% (2006: 8%). The uncertainties in estimating these costs include the amount of the payments and their timing. The amounts are payable prior to 2025.

(c) PAYMENTS FOR LICENCES FOR EXPLORATION ASSETS

In accordance with the terms of the four year exploration licence, Kazakhmys Petroleum LLP is liable to make payments to the Government for geological information and social commitments in Astana and the Aktobe region. The present value of the obligations is estimated by applying a discount rate of 12%.

(d) OTHER

Other provisions are recorded where the Group has a legal or constructive obligation and a future outflow of resources is considered probable.

29. BORROWINGS

	Maturity	Average interest rate during the year	Currency of denomination	Current \$ million	Non-current \$ million	Total \$ million
31 December 2007						
Deutsche Bank – variable at EURIBOR + 1.45%	2010	5.61%	Euro	–	195.9	195.9
Halyk Bank – fixed at 11.67%	2008	11.67%	US dollar	1.6	–	1.6
				1.6	195.9	197.5
31 December 2006						
Deutsche Bank – variable at EURIBOR + 1.45%	2010	4.74%	Euro	–	277.3	277.3
				–	277.3	277.3

DEUTSCHE BANK

In May 2006, MKM entered into a loan credit agreement with Deutsche Bank for a long-term loan of €230 million to repay borrowings from Dresden Bank and intercompany balances due to Kazakhmys LLC, and for general working capital purposes. The interest payable is EURIBOR + 1.45%. The Deutsche Bank loan is secured over the inventories and receivables of MKM.

At 31 December 2007, the amount of inventories and receivables of MKM held as security for the borrowings was \$221.3 million and \$162.0 million (2006: \$240.9 million and \$154.2 million) respectively. Kazakhmys LLC acts as guarantor of the loan.

(a) UNDRAWN FACILITIES

The Group had the following undrawn committed borrowing facilities in place:

\$ million	2007	2006
Credit lines	287.1	197.1

30. TRADE AND OTHER PAYABLES

\$ million	2007	2006
Trade payables	97.0	111.7
Other taxes payable	48.1	18.3
Salaries and related payables	40.2	30.6
Amounts payable to related parties	4.7	2.2
Payments received in advance	12.4	152.0
Other payables and accrued expenses	21.0	15.6
	223.4	330.4

Trade payables are non-interest bearing and are normally settled on 30-40 day terms. Other taxes payable principally comprise payroll taxes and environmental fund payments remitted to the appropriate tax authority on a monthly basis. Other payables are non-interest bearing and have an average term of 30 days.

31. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

\$ million	2007	2006
Profit before taxation	2,025.9	2,167.8
Interest income	(93.9)	(78.5)
Interest expense	13.7	8.0
Depreciation and depletion	260.7	223.0
Amortisation	2.8	2.8
Recognition of negative goodwill	–	(6.5)
Write off and impairment losses	30.1	9.9
Unrealised foreign exchange loss/(gain)	45.5	(39.2)
Gain on disposal of assets held for trading	(0.5)	–
(Gain)/loss on disposal of property, plant and equipment	(1.8)	9.6
Operating cash flows before changes in working capital and provisions	2,282.5	2,296.9
Increase in inventories	(31.3)	(339.2)
Increase in prepayments and other current assets	(100.2)	(64.8)
Increase in trade and other receivables	(45.8)	(11.1)
Increase in employee benefits	2.5	2.3
Increase in provisions	14.9	2.1
(Decrease)/increase in trade and other payables	(122.8)	156.1
Cash flows from operations before income taxes and interest	1,999.8	2,042.3
Interest paid	(13.7)	(6.8)
Income taxes paid	(849.6)	(623.3)
Net cash inflow from operating activities	1,136.5	1,412.2

32. MOVEMENT IN NET LIQUID FUNDS

\$ million	At 1 January 2007	Business acquisition	Cash flow	Net exchange translation	Other non-cash movements ¹	At 31 December 2007
Cash and cash equivalents	785.4	11.6	(396.9)	38.4	–	438.5
Current investments	1,237.2	–	(1,183.9)	45.0	(41.0)	57.3
Borrowings	(277.3)	(5.9)	112.4	–	(26.7)	(197.5)
Net liquid funds	1,745.3	5.7	(1,468.4)	83.4	(67.7)	298.3

\$ million	At 1 January 2006	Cash flow	Net exchange translation	Other non-cash movements ¹	At 31 December 2006
Cash and cash equivalents	522.0	287.7	(24.3)	–	785.4
Current investments	356.5	834.5	12.8	33.4	1,237.2
Borrowings	(48.8)	(208.2)	(13.8)	(6.5)	(277.3)
Finance leases	(0.2)	0.2	–	–	–
Net liquid funds	829.5	914.2	(25.3)	26.9	1,745.3

¹ Other non-cash movements comprise foreign exchange losses/gains incurred by Group entities and recognised in the consolidated income statement.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and current investments. The Group's accounting policies with regard to financial instruments are detailed in note 3. The Group does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IAS 32 'Financial Instruments: Disclosure and Presentation'.

(a) DERIVATIVES, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In general, the Group does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency rates, interest rates and commodity prices, with the exception of MKM, where limited commodity futures are used to manage its exposure to copper prices.

(b) FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating company in currencies other than that company's functional currency. The functional currency of Kazakhmys LLC, Kazakhmys Gold and Kazakhmys Petroleum LLP is the Kazakhstan tenge, with MKM having a Euro functional currency and the Company having a US dollar functional currency. The currencies giving rise to this foreign currency risk are primarily the US dollar based revenues, bank deposits, trade receivables and certain trade payables of Kazakhmys LLC, subsidiary companies within Kazakhmys Gold and Kazakhmys Petroleum LLP and the US dollar balances in respect of certain revenues, and trade receivables and payables of MKM. The Group generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

(i) FOREIGN CURRENCY AND COMPANY PROFILE

The analysis in the table below of the net monetary assets and liabilities indicates the Group's exposure to currencies other than the functional currency of a company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2007 and 2006, these exposures were as follows:

\$ million	US dollar	UK sterling	Euro	KZT	Other
2007					
Company	n/a	(19.4)	–	142.6	–
MKM	21.3	15.9	n/a	–	0.5
Kazakhmys LLC	1,506.7	–	97.4	n/a	(0.6)
Kazakhmys Gold	13.9	–	0.1	n/a	–
Kazakhmys Petroleum LLP	4.0	–	–	n/a	–
	1,545.9	(3.5)	97.5	142.6	(0.1)
2006					
Company	n/a	(5.9)	–	304.5	–
MKM	13.4	39.6	n/a	–	0.1
Kazakhmys LLC	1,449.4	–	205.1	n/a	(1.0)
	1,462.8	33.7	205.1	304.5	(0.9)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(ii) FOREIGN CURRENCY AND BALANCE SHEET ACCOUNT PROFILE

The Group's exposure to foreign currency risk based on gross amounts is shown below:

\$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2007						
Available for sale investments	–	2,401.0	–	–	–	2,401.0
Other non-current investments	0.1	–	1.5	10.1	0.5	12.2
Trade and other receivables	156.9	23.7	105.3	46.8	0.2	332.9
Current investments – short-term bank deposits	50.0	–	–	7.3	–	57.3
Cash and cash equivalents	316.1	–	14.3	107.9	0.2	438.5
Borrowings	(1.6)	–	(195.9)	–	–	(197.5)
Trade and other payables	(38.6)	(13.6)	(36.4)	(133.8)	(1.0)	(223.4)
Income tax payable	–	(6.1)	(28.8)	(30.4)	–	(65.3)
Dividend payable	(0.2)	–	–	(1.9)	–	(2.1)
	482.7	2,405.0	(140.0)	6.0	(0.1)	2,753.6
\$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2006						
Other non-current investments	0.5	–	2.7	3.0	–	6.2
Trade and other receivables	97.7	39.8	87.3	38.6	0.1	263.5
Current investments – short-term bank deposits	1,055.7	–	114.0	17.0	–	1,186.7
Current investments – assets held for trading	–	–	–	50.5	–	50.5
Cash and cash equivalents	726.2	0.5	36.1	22.5	0.1	785.4
Borrowings	–	–	(277.3)	–	–	(277.3)
Trade and other payables	(131.3)	(3.6)	(26.3)	(168.1)	(1.1)	(330.4)
Income tax payable	–	(2.9)	(0.4)	(173.6)	–	(176.9)
Dividend payable	(0.2)	–	–	(4.2)	–	(4.4)
	1,748.6	33.8	(63.9)	(214.3)	(0.9)	1,503.3

(iii) SENSITIVITY ANALYSIS

A one per cent strengthening of US dollar against the following currencies at 31 December would have increased/(decreased) equity and profit/(loss) after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006:

\$ million	2007		2006	
	Equity	Profit/(loss)	Equity	Profit/(loss)
Euro	–	1.3	–	2.2
KZT	–	0.2	–	(2.8)
UK sterling	24.0	–	–	0.3

A one per cent weakening of US dollar against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) COMMODITY PRICE RISK

The Group is exposed to the effect of fluctuations in the price of copper, which is quoted in US dollars on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of copper prices in the future. The Group is also exposed, to a lesser degree, to the prices of other metals, including zinc, gold and silver, which are also products produced by the Group.

A one per cent increase/(decrease) of commodity prices would have increased/(decreased) profit/(loss) after tax by the amounts shown below. There is no impact on the Group's equity. This analysis assumes that all other variables, in particular costs, remain constant. The analysis is performed on the same basis for 2006:

	2007		2006	
	Average realised price \$	Impact on profit of 1% movement \$ million	Average realised price \$	Impact on profit of 1% movement \$ million
Copper	7,175	17.0	7,025	16.4
Zinc	3,237	2.2	3,145	2.3
Silver	13.3	1.5	11.4	1.4
Gold	695	0.4	610	0.3

The Group (with the exception of MKM) does not hedge its exposure to the risk of fluctuations in the price of copper and other mineral commodities. MKM uses natural hedging arising on back-to-back purchase and supply contracts to manage its economic exposure to changes in the price of copper. In those limited cases where a natural hedge is not possible, MKM uses commodity futures to manage its exposure to changes in the price of copper.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(d) CREDIT RISK

The Group does not require collateral in respect of financial assets.

It is the Group's policy that credit evaluations are performed on all customers, who wish to trade on credit terms whereby they require credit over a certain amount. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

Credit risk relating to the Group's other financial assets, comprising principally current investments and cash and cash equivalents, arises from the potential default of counterparties. Management regularly monitors the financial strength of counterparties through its knowledge of local market conditions. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

As at 31 December 2007, 11 (2006: 6) customers accounted for 47% (2006: 65%) of the trade and other receivables balance of the Group. By 5 March 2008, 95% (14 March 2006: 100%) of year-end balances due from these customers had been received in full.

(i) EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2007	2006
Available for sale investments	2,401.0	–
Other non-current investments – long-term bank deposits	2.1	1.6
Other non-current investments – long-term securities	4.6	3.8
Trade and other receivables	332.9	263.5
Current investments – short-term bank deposits	57.3	1,186.7
Current investments – assets held for trading	–	50.5
Cash and cash equivalents	438.5	785.4
	3,236.4	2,291.5

(ii) RISK FOR TRADE RECEIVABLES BY GEOGRAPHICAL REGIONS

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

\$ million	2007	2006
Europe	147.6	144.0
China	101.5	54.0
Kazakhstan	46.8	38.6
Other	37.0	26.9
	332.9	263.5

(iii) IMPAIRMENT LOSSES

The ageing of trade receivables at 31 December was:

\$ million	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	293.2	–	230.5	–
Past due 0-90 days	36.4	(1.4)	31.7	(2.1)
Past due 91-180 days	3.0	(0.7)	2.5	(0.5)
Past due 181-270 days	3.2	(0.8)	2.5	(1.3)
More than 270 days	30.1	(30.1)	24.9	(24.7)
	365.9	(33.0)	292.1	(28.6)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

\$ million	2007	2006
At 1 January	28.6	32.7
Charged/(credited) to income statement	2.3	(8.3)
Written off	(1.6)	–
Net exchange adjustment	3.7	4.2
At 31 December	33.0	28.6

(e) PRICE RISK

The Group holds German securities on behalf of employees in order to fund its obligations arising from part-time contracts for older employees (note 27). These securities amounted to \$1.5 million as at 31 December 2007 (2006: \$2.7 million). The Group is therefore exposed to fluctuations in the market price of these securities.

(f) LIQUIDITY RISK

The Group maintains a balance between availability of funding and maximising investment return on its liquid resources through the use of liquid cash investments of varying maturities, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group in selecting appropriate maturities for its liquid cash investments. In the event that bank term deposits in Kazakhstan need to be liquidated at short notice in advance of their contracted maturity date, the terms of these investments permit their immediate conversion to cash, and in some instances, the forfeiture of interest accrued to the date of liquidation.

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2007						
Borrowings	–	–	1.6	195.9	–	197.5
Trade and other payables	–	223.4	–	–	–	223.4
Income tax payable	–	65.3	–	–	–	65.3
Dividend payable	2.1	–	–	–	–	2.1
	2.1	288.7	1.6	195.9	–	488.3

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2006						
Borrowings	–	–	–	277.3	–	277.3
Trade and other payables	–	330.4	–	–	–	330.4
Income tax payable	–	176.9	–	–	–	176.9
Dividend payable	4.4	–	–	–	–	4.4
	4.4	507.3	–	277.3	–	789.0

(g) INTEREST RATE RISK

The Group has financial assets and liabilities, which are exposed to interest rate risk. Changes in interest rates impacting borrowings change either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group's policy is to generally borrow at floating rate of interest wherever possible and financial instruments are used to swap material fixed rate exposure to floating where necessary. However, local market conditions in Kazakhstan dictate that borrowings are generally fixed in nature and as such, borrowings in Kazakhstan are generally short term in nature and used for working capital purposes only.

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(i) INTEREST RATE AND MATURITY PROFILE

The following tables set out the carrying amount, by maturity, of the Group's financial assets and financial liabilities that are exposed to interest rate risk:

\$ million	At 31 December 2007						Total
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	
Fixed rate							
Non-current investments ¹	–	3.1	–	–	–	2.1	5.2
Current investments	57.3	–	–	–	–	–	57.3
Cash and cash equivalents ²	154.6	–	–	–	–	–	154.6
Borrowings	(1.6)	–	–	–	–	–	(1.6)
	210.3	3.1	–	–	–	2.1	215.5

Floating rate							
Non-current investments ¹	–	1.5	–	–	–	–	1.5
Cash and cash equivalents ²	248.3	–	–	–	–	–	248.3
Borrowings	–	–	(195.9)	–	–	–	(195.9)
	248.3	1.5	(195.9)	–	–	–	53.9

\$ million	At 31 December 2006						Total
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	
Fixed rate							
Non-current investments ¹	–	1.1	–	–	–	1.6	2.7
Current investments	1,237.2	–	–	–	–	–	1,237.2
Cash and cash equivalents ²	478.7	–	–	–	–	–	478.7
	1,715.9	1.1	–	–	–	1.6	1,718.6
Floating rate							
Non-current investments ¹	–	2.7	–	–	–	–	2.7
Cash and cash equivalents ²	232.8	–	–	–	–	–	232.8
Borrowings	–	–	–	(277.3)	–	–	(277.3)
	232.8	2.7	–	(277.3)	–	–	(41.8)

¹ Non-current investments excludes non-interest bearing unlisted investments of \$7.1 million (2006: \$2.3 million).

² Cash and cash equivalents excludes non-interest bearing petty cash, cash in transit and loan reserved balances.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(ii) INTEREST RATE AND CURRENCY PROFILE

The following tables set out the carrying amount, by currency, of the Group's financial assets and financial liabilities that are exposed to interest rate risk:

\$ million	At 31 December 2007				
	US dollar	Euro	KZT	UK sterling	Total
Fixed rate					
Non-current investments ¹	0.1	–	5.1	–	5.2
Current investments	50.0	–	7.3	–	57.3
Cash and cash equivalents ²	154.6	–	–	–	154.6
Borrowings	(1.6)	–	–	–	(1.6)
	203.1	–	12.4	–	215.5
Floating rate					
Non-current investments ¹	–	1.5	–	–	1.5
Cash and cash equivalents ²	248.3	–	–	–	248.3
Borrowings	–	(195.9)	–	–	(195.9)
	248.3	(194.4)	–	–	53.9
\$ million	At 31 December 2006				
	US dollar	Euro	KZT	UK sterling	Total
Fixed rate					
Non-current investments ¹	0.5	–	2.2	–	2.7
Current investments	1,055.7	114.0	67.5	–	1,237.2
Cash and cash equivalents ²	478.7	–	–	–	478.7
	1,534.9	114.0	69.7	–	1,718.6
Floating rate					
Non-current investments ¹	–	2.7	–	–	2.7
Cash and cash equivalents ²	220.4	11.9	–	0.5	232.8
Borrowings	–	(277.3)	–	–	(277.3)
	220.4	(262.7)	–	0.5	(41.8)

¹ Non-current investments excludes non-interest bearing unlisted investments of \$7.1 million (2006: \$2.3 million).

² Cash and cash equivalents excludes non-interest bearing petty cash, cash in transit and loan reserved balances.

A one per cent increase/(decrease) in interest rates on floating rate net assets/liabilities would have decreased/(increased) profit after tax by \$0.3 million and equity by \$nil on the basis that all other variables, in particular monetary assets and liabilities impacted by floating rates remain constant.

(h) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

For those investments which are actively traded on the stock exchange the fair value is based on market prices. In other cases fair value has been determined as at the balance sheet date by discounting the estimated future cash flows at prevailing interest rates. As a result of this exercise, the Directors have determined that the fair value of the Group's financial assets and liabilities, comprising cash and cash equivalents, trade and other receivables, current and non-current investments, trade and other payables, borrowings, income tax and dividends payable, approximates to the carrying amounts. Fair values of financial assets and liabilities are summarised in the following table:

\$ million	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Available for sale investments	2,401.0	2,401.0	–	–
Other non-current investments – unlisted investments	5.5	5.5	0.8	0.8
Other non-current investments – long-term securities	4.6	4.6	3.8	3.8
Other non-current investments – long-term bank deposits	2.1	2.1	1.6	1.6
Trade and other receivables	332.9	330.7	263.5	262.0
Current investments – short-term bank deposits	57.3	57.3	1,186.7	1,186.7
Current investments – assets held for trading	–	–	50.5	50.5
Cash and cash equivalents	438.5	438.5	785.4	785.4
Borrowings	(197.5)	(197.5)	(277.3)	(277.3)
Trade and other payables	(224.3)	(223.4)	(330.4)	(329.4)
Income tax payable	(65.3)	(64.8)	(176.9)	(174.1)
Dividend payable	(2.1)	(2.1)	(4.4)	(4.4)

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(i) CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a robust balance sheet in order to support its business and maximise shareholder value. The Group's current capital structure is almost exclusively equity with minimal levels of debt carried within the MKM and Kazakhmys Gold businesses for working capital purposes. The Kazakhmys Copper business is debt free. The Group is in a strong cash position and, with copper trading well above historic price levels, the Group generates considerable Free Cash Flow in excess of current capital and growth requirements.

Carrying significant cash balances is not the most efficient use of capital, and therefore in 2007, the Group returned excess cash to shareholders through a combination of raising ordinary dividends, paying a special dividend and undertaking a share buy-back programme. Further returns to shareholders will be assessed in future taking into consideration commodity prices and capital requirements for organic and acquisitive growth at the time. This will ensure the Group maintains an efficient capital structure that meet the needs of the business and maximises shareholder value.

At 31 December 2007, capital employed (comprised of equity shareholders' funds, minority interests and borrowings) of the Group amounted to \$6,630.7 million, compared to \$4,169.1 million at 31 December 2006.

34. COMMITMENTS AND CONTINGENCIES

(a) LEGAL CLAIMS

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group. As of 31 December 2007 and 2006 the Group was not involved in any significant legal proceedings, including arbitration.

(b) KAZAKHSTAN TAXATION CONTINGENCIES

(i) INHERENT UNCERTAINTIES IN INTERPRETING TAX LEGISLATION

The Group is subject to uncertainties relating to the determination of its tax liabilities. The tax system and tax legislation in Kazakhstan have been in force for only a relatively short time and are subject to frequent changes and varying interpretations. Management's interpretations of such legislation in applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may in particular relate to the valuation of the taxable base for excess profits tax purposes and the application of transfer pricing policies.

In relation to excess profits tax, the tax law gives no explicit guidance on how the tax base should be determined for individual subsurface use contracts relevant to certain members of the Group. Prior to 2002 it was not clear from the contracts themselves as to how profitability should be allocated to the Group's mining operations. In the event of a successful challenge by the tax authorities, the Group may be liable for additional payments of excess profits tax. Depending on the interpretation adopted and the amounts, if any, that are involved, this could have a significant adverse impact on the Group's financial position and on its profit for a reporting period. Under such circumstances, there would also be a consequential significant adverse impact on all subsequent periods due to the cumulative nature of the excess profits tax calculations.

(ii) STATUS OF TAX AUDITS

During 2006, Kazakhmys LLC was subject to a tax audit for the periods 2003 to 2005 and received a tax assessment for approximately \$11 million, including penalties and interest. Kazakhmys LLC paid this amount to the tax authorities in March 2007. The issuance of the tax audit act following this audit implicitly confirmed management's approach to excess profits tax for the years subject to audit. The cumulative nature of excess profits tax calculations may result in a further assessment of excess profits tax for the years already subject to audit if subsequent tax audits challenge the methodology adopted by Kazakhmys LLC. However, management believes the excess profits tax methodology adopted by Kazakhmys LLC is in compliance with legislation, and interpretations thereof.

During 2007, Kazakhmys LLC was subject to a transfer pricing audit for the years 2001 to 2005 and received a tax assessment for approximately \$21 million, including penalties and interest. Kazakhmys LLC paid this amount to the tax authorities in August 2007. Based on the results of this audit, management has also evaluated that the potential tax exposure for the years 2006 and 2007 would be approximately \$28 million if the same methodology applied by the tax authorities for the years 2001 to 2005 was applied to 2006 and 2007. Kazakhmys LLC paid \$13 million of this potential exposure in December 2007 and will pay the balance of \$15 million to the tax authorities by April 2008. The Group has fully provided in its financial statements for all potential tax liabilities relating to application of transfer pricing policies assuming the approach adopted by the tax authorities in future tax audits is consistent with that which has been applied in prior years.

(iii) PERIOD FOR ADDITIONAL TAX ASSESSMENTS

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of the excess profits tax they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(iv) POSSIBLE ADDITIONAL TAX LIABILITIES

The Directors believe that the Group is in substantial compliance with the tax laws and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

34. COMMITMENTS AND CONTINGENCIES continued

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(c) GERMAN TAXATION CONTINGENCIES

(i) STATUS OF TAX AUDITS

In 2007 the German tax authorities finalised a tax audit of MKM for the years 1999 to 2002. The years from 2003 to 2007 remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

(ii) PAYMENTS OF FUTURE UTILISED TAX LOSSES

In accordance with the privatisation agreement between the successor body of the former state-controlled shareholder in MKM, BMBG Beteiligungs-Management-Gesellschaft Berlin GmbH (BMGB) and Lamitref Holding B.V. (former owner in MKM), dated 18 December 1995, to the extent that MKM utilised tax losses against taxable income, it was required to make certain agreed upon payments to BMGB. The maximum payment that was payable to BMGB was \$115.5 million. However, in 2007, MKM reached agreement with the German government, whereby all losses accumulated prior to May 1999 were forfeited with losses after this date being retained by MKM. Therefore, no future payments are required to be made to BMBG subsequent to this agreement, as the losses accumulated prior to May 1999, are no longer available to MKM.

(d) INSURANCE

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has purchased a catastrophic insurance programme in the London market to mitigate the effect of the loss or damage of certain of its assets located at its plant facilities and the resultant business interruption although such a programme may not provide full cover in the event of a major loss. The Group does not have third party liability coverage in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(e) ENVIRONMENTAL CONTINGENCIES

Environmental regulations in Kazakhstan are continually evolving. The outcome of the environmental regulations under proposed or any future environmental legislation cannot be estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements.

The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 28), is based upon the estimation of Kazakhmys LLC's and Kazakhmys Gold's specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

(f) USE OF SUBSOIL AND EXPLORATION RIGHTS

In Kazakhstan, all subsoil reserves belong to the State, with the Ministry of Energy and Mineral Resources (the 'Ministry') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations. The current subsoil rights will expire at varying dates up to 2025.

(g) OBLIGATIONS TO PENSION FUND BENEFICIARIES

The pension scheme is run by ABN Amro Bank Kazakhstan, and is termed the 'Accumulating Pension Fund of Kazakhmys Corporation LLC' (the 'Fund'). The Fund is a corporate accumulative pension fund established under the laws of Kazakhstan. Most of Kazakhmys LLC's employees and former employees are beneficiaries, and are entitled to an amount comprising the indexed value of their contributions. Under Kazakhstan law, the Fund calculates the benefits of its members on an annual basis. Kazakhmys LLC does not make any contributions to the Fund on behalf of its employees.

The Fund's rules set out that the payment obligation to Fund beneficiaries is based on the nominal value of contributions, indexed in accordance with a formula set out in the Fund's rules. In the event that the assets of the Fund are insufficient to cover the payment obligations to the beneficiaries, the voting shareholders of the Fund (including Kazakhmys LLC) are jointly liable for the shortfall.

The last valuation as at 31 December 2007 showed the Fund's payment obligations were \$191.4 million (2006: \$134.0 million), and the fair market value of the Fund's assets amounted to \$208.8 million (2006: \$158.1 million).

(h) COMMITMENTS IN RESPECT OF THE ACQUISITION OF MKM

In the context of its acquisition of MKM in December 2004, the Group is committed to invest approximately \$43.0 million in capital expenditure by 31 December 2008, and inject working capital of \$37.0 million and ensure that MKM employs at least 1,006 employees up to 31 December 2006.

As at 31 December 2007, \$43.9 million (2006: \$18.1 million) had been invested in capital expenditure in MKM since acquisition. The average number of employees during the year ended 31 December 2007 was 1,045 (2006: 1,045).

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

34. COMMITMENTS AND CONTINGENCIES continued

(i) OTHER COMMITMENTS

The table below sets out the Group's expenditure commitments in property, plant and equipment as at 31 December 2007 and 2006:

	2007	2006
Property, plant and equipment	92.7	123.4

The Group has capital expenditure commitments for the purchase of property, plant and equipment as well as commitments under its mining subsoil agreements and the petroleum exploration licence. Committed expenditure under these subsoil agreements relates to investments in community-related projects, and includes investments in social sphere assets, infrastructure and public utilities.

(j) GUARANTEE OF EMPLOYEE LOANS

Kazakhmys LLC's employees are permitted to enter into loan arrangements with banks on normal commercial terms under which Kazakhmys LLC has guaranteed to deduct repayments from employees' remuneration in accordance with agreed schedules of repayment. The total value of this guarantee amounted to \$6.2 million as at 31 December 2007 (2006: \$1.2 million).

(k) OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group and Company had the following total commitments under non-cancellable operating leases:

\$ million	2007	2006
Within one year	2.0	0.9
After one year but not more than five years	7.8	7.3
More than five years	16.2	17.0
	26.0	25.2

35. RELATED PARTY DISCLOSURES TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period:

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Companies related to Chairman				
2007	–	806.3	–	–
Companies under trust management¹				
2007	6.9	6.9	12.3	1.0
2006	9.0	6.9	9.7	1.0
Other companies¹				
2007	2.0	30.8	4.2	2.6
2006	13.7	3.2	4.7	1.2

¹ A provision of \$28.3 million (2006: \$22.7 million) has been set against the total of the balances owed by related parties.

(i) OPTION AGREEMENT WITH CHAIRMAN

Following approval of the transaction from the independent shareholders on 19 October 2007, and receipt of regulatory approval from the Government, the Group exercised the call option over Vladimir Kim's interest in Eurasian Natural Resources Corporation PLC (ENRC) for a total consideration of \$806.3 million on 26 October 2007. This represented 100% of the initial investment of \$751 million plus a 10% margin (reflecting the risk of the initial investment) and the actual financing and transaction costs incurred by Vladimir Kim less any dividends paid to him as a result of holding the stake.

(ii) COMPANIES UNDER TRUST MANAGEMENT AGREEMENTS

The Group operates a number of companies under trust management agreements with local and state authorities. The activities include heating distribution systems, road maintenance and aviation services. The purpose of these agreements is to provide public and social services without any material financial benefit for the Group. Transactions between the Group and these companies are conducted on an arm's length basis.

(iii) OTHER COMPANIES

Transactions with other companies primarily relate to the provision of goods and services, on an arm's length basis, from companies whose Boards include members of senior management of the Group's subsidiaries in significant roles.

36. COMPANY TANGIBLE ASSETS

\$ million	Leasehold improvements	Motor vehicles	Office equipment	Total
Cost				
At 1 January 2006	–	0.3	0.7	1.0
Additions	2.6	0.4	2.2	5.2
Disposals	–	(0.1)	(0.6)	(0.7)
At 31 December 2006	2.6	0.6	2.3	5.5
Additions	1.1	–	2.1	3.2
At 31 December 2007	3.7	0.6	4.4	8.7
Depreciation				
At 1 January 2006	–	0.1	0.1	0.2
Depreciation charge	0.1	0.1	0.2	0.4
Disposals	–	–	(0.1)	(0.1)
At 31 December 2006	0.1	0.2	0.2	0.5
Depreciation charge	0.3	0.1	0.7	1.1
At 31 December 2007	0.4	0.3	0.9	1.6
Net book value				
At 31 December 2007	3.3	0.3	3.5	7.1
At 31 December 2006	2.5	0.4	2.1	5.0

37. COMPANY NON-CURRENT INVESTMENTS

\$ million	2007	2006
At 1 January	1,151.3	964.5
Additions	1,588.4	–
Capital contribution	–	185.7
Purchase of minority shareholders' interest in Kazakhmys LLC	79.0	1.1
At 31 December 2007	2,818.7	1,151.3

(i) KAZAKHMYNS LLC

At 31 December 2007, the Company held KZT 34,725 million (2006: KZT 34,499 million) in the charter capital of Kazakhmys LLC, being 99.73% (2006: 99.08%) of Kazakhmys LLC's equity.

On 31 January 2006, the Company made a capital contribution of \$185.7 million to Kazakhmys LLC. The offer period for subscribing shareholders to take up the right of minority interests who did not participate in the capital contribution, as permitted by legislation, closed on 14 March 2006. The Company also acquired minority shareholders' interests who did not participate in the capital contribution at a cost of \$1.1 million during the year. The Company's interest in Kazakhmys LLC therefore increased from 98.68% as at 1 January 2006 to 99.08% at 31 December 2006.

In September 2007 the Company issued 2,559,665 ordinary shares of 20 pence each and paid \$11.5 million in consideration for the transfer to it of 227,959,211 units in Kazakhmys LLC by minority shareholders. As result of this, the Company's interest in Kazakhmys LLC increased from 99.08% as at 31 December 2006 to 99.73% as at 31 December 2007.

(ii) OTHER INVESTMENTS

Balances within additions reflect investments in intermediate holding companies through which the Group's entities are held in Kazakhmys Petroleum LLP, Kazakhmys Gold, interest in ENRC and MKM. The Company and associated capitalised acquisition costs acquired these investments in intermediate holding companies through share for share exchanges.

38. COMPANY INVENTORIES

\$ million	2007	2006
Finished goods	16.0	24.0

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

39. COMPANY PREPAYMENTS AND OTHER CURRENT ASSETS

\$ million	2007	2006
Income tax prepaid	–	1.6
VAT reclaimable	3.2	1.7
Other current assets	3.8	2.7
	7.0	6.0

40. COMPANY TRADE AND OTHER RECEIVABLES

\$ million	2007	2006
Dividends receivable from Kazakhmys LLC (net of withholding tax)	142.6	304.5
Trade receivables	104.2	37.9
Trade receivables from Kazakhmys LLC	1.5	37.8
Other receivables	2.6	0.5
	250.9	380.7

41. COMPANY DEFERRED TAXATION UNRECOGNISED DEFERRED TAX ASSET

The payment of dividends from Kazakhmys LLC to the Company has created excess foreign tax credits of \$55.2 million (2006: \$12.4 million) which have arisen due to the higher effective tax rate in Kazakhstan compared to the UK as well as withholding taxes payable on dividends remitted from Kazakhstan to the UK. These excess foreign tax credits do not expire.

42. COMPANY CAPITAL RESERVE

The capital reserve is a non-distributable reserve created when the shares issued pursuant to the share exchange agreements prior to the Company's Listing were recorded at fair value. To the extent the Company receives dividends from Kazakhmys LLC's profits created in the period prior to the share exchange, the capital reserve is realised through a transfer to distributable retained earnings.

43. COMPANY BORROWINGS

As at 31 December 2007, borrowings of the Company comprise a US dollar denominated loan payable to Kazakhmys LLC of \$1,265.0 million (2006: \$nil). The carrying amount of the borrowings approximates to the fair value. Interest is payable on this loan at a rate of LIBOR + 1.25%. The loan is repayable on 28 November 2008, but the Company has the option for early repayment and both parties may mutually agree to an extension.

44. COMPANY TRADE AND OTHER PAYABLES

\$ million	2007	2006
Trade payables to Kazakhmys LLC	117.8	24.2
Trade receivables received in advance	9.4	148.4
Interest payable to Kazakhmys LLC	6.1	–
Other payables and accrued expenses	19.7	11.8
	153.0	184.4

45. COMPANY MOVEMENT IN NET LIQUID FUNDS/(DEBT)

\$ million	At 1 January 2007	Cash flow	At 31 December 2007
Cash and cash equivalents	429.3	(295.5)	133.8
Borrowings	–	(1,265.0)	(1,265.0)
Net liquid funds/(debt)	429.3	(1,560.5)	(1,131.2)

\$ million	At 1 January 2006	Cash flow	At 31 December 2006
Cash and cash equivalents	506.3	(77.0)	429.3
Net liquid funds	506.3	(77.0)	429.3

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise borrowings and cash equivalents. The Company follows the Group's accounting policies with regard to financial instruments that are detailed in note 3. The Company does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined by IAS 32 'Financial Instruments: Disclosure and Presentation'.

The Company does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency rates, interest rates and commodity prices.

Commodity price, liquidity and price risks for the Company are not considered significant. For other risks see below.

(a) FOREIGN CURRENCY RISK

The Company has transactional currency exposures. Such exposures arise from transactions in currencies other than the Company's functional currency. The currencies giving rise to this foreign currency risk are primarily the dividend receivable from Kazakhmys LLC denominated in Kazakhstan tenge within other operating income and trade and other receivables and corporate costs primarily denominated in UK sterling. The Company does not enter into hedging policies in respect of its exposure to foreign currency risk.

(i) FOREIGN CURRENCY AND BALANCE SHEET ACCOUNT PROFILE

The Company's exposure to foreign currency risk based on notional amounts is shown below:

\$ million	US dollar	UK sterling	KZT	Total
2007				
Trade and other receivables	108.3	–	142.6	250.9
Cash and cash equivalents	133.8	–	–	133.8
Borrowings	(1,265.0)	–	–	(1,265.0)
Trade and other payables	(139.7)	(13.3)	–	(153.0)
Income tax payable	–	(6.1)	–	(6.1)
Dividend payable	(0.2)	–	–	(0.2)
	(1,162.8)	(19.4)	142.6	(1,039.6)
2006				
Trade and other receivables	76.2	–	304.5	380.7
Cash and cash equivalents	428.8	0.5	–	429.3
Trade and other payables	(180.9)	(3.5)	–	(184.4)
Income tax payable	–	(2.9)	–	(2.9)
Dividend payable	(0.2)	–	–	(0.2)
	323.9	(5.9)	304.5	622.5

(ii) SENSITIVITY ANALYSIS

A one per cent strengthening of the US dollar against the following currencies at 31 December would have increased/(decreased) profit/(loss) after tax by the amounts shown below. There is no impact on equity. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006:

\$ million	2007 Profit/(loss)	2006 Profit/(loss)
KZT	1.4	3.0
UK sterling	(0.2)	(0.1)

Notes to the consolidated financial statements continued

YEAR ENDED 31 DECEMBER 2007

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

For details of the Company's credit risk with regards to customers and financial assets, refer to note 33(d).

(b) CREDIT RISK

(i) EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2007	2006
Trade and other receivables	250.9	380.7
Cash and cash equivalents	133.8	429.3
	384.7	810.0

(ii) RISK FOR TRADE RECEIVABLES BY GEOGRAPHICAL REGIONS

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

\$ million	2007	2006
Europe	7.4	21.3
China	96.8	17.1
Kazakhstan	146.7	342.3
	250.9	380.7

(c) INTEREST RATE RISK

The Company has financial assets and liabilities, which are exposed to interest rate risk. Changes in interest rates impacting its borrowings change either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Company maintains its financial instruments in floating interest rate.

The following tables set out the carrying amount, by maturity, of the Group's financial assets and financial liabilities that are exposed to interest rate risk:

\$ million	2007	2006
Floating rate		
Cash and cash equivalents	133.8	429.3
Borrowings	(1,265.0)	—
	(1,131.2)	429.3

All the Company's interest bearing monetary assets and liabilities are denominated in US dollars and short term in nature.

A one per cent increase/(decrease) in interest rates on floating rate net assets/liabilities would have decreased/(increased) profit after tax by \$0.2 million and equity by £nil on the basis that all other variables, in particular monetary assets and liabilities impacted by floating rates remain constant.

(d) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined as of the balance sheet date by discounting the estimated future cash flows at prevailing interest rates. As a result of this exercise, the Directors have determined that the fair value of the Company's financial assets and liabilities, comprising cash and cash equivalents, trade and other receivables, trade and other payables, borrowings, income tax and dividends payable, approximates to the carrying amounts. Fair values of financial assets and liabilities are summarised in the following table:

\$ million	Carrying value	2007 Fair value	Carrying value	2006 Fair value
Trade and other receivables	250.9	250.6	380.7	379.7
Cash and cash equivalents	133.8	133.8	429.3	429.3
Borrowings	(1,265.0)	(1,265.0)	—	—
Trade and other payables	(153.0)	(152.4)	(184.4)	(183.6)
Income tax payable	(6.1)	(6.1)	(2.9)	(2.9)
Dividend payable	(0.2)	(0.2)	(0.2)	(0.2)

47. COMPANY RELATED PARTY DISCLOSURES

(a) TRANSACTIONS WITH RELATED PARTIES

The following table provides details of transactions which have been entered into with related parties for the relevant financial period.

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Kazakhmys Corporation LLC				
2007	5.1	3,111.9	146.7	1,388.9
2006	–	2,654.8	342.3	24.2
Companies related to Chairman (see note 35)				
2007	–	806.3	–	–

KAZAKHMYS LLC

Sales contracts are entered into between the Company and end customers and the Company in turn enters into contracts with Kazakhmys LLC for the supply of the products being sold. The price at which sales are made by Kazakhmys LLC to the Company is based on the prevailing price of commodities as determined by the LME. The Company also recharges direct costs incurred on behalf of Kazakhmys LLC in full, together with a proportion of management service costs to Kazakhmys LLC.

(b) TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

48. SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and the principal subsidiaries listed in the following table:

	Principal activity	Country of incorporation	Equity interest at 31 December 2007 %	Equity interest at 31 December 2006 %
Kazakhmys Corporation LLC	Mining and processing copper	Kazakhstan	99.7	99.1
MKM Mansfelder Kupfer und Messing GmbH	Copper processing	Germany	100.0	99.1
Kazakhmys Gold B.V.	Mining and processing gold	Netherlands	100.0	–
Kazakhmys Petroleum LLP	Oil and gas exploration	Kazakhstan	100.0	–

49. EVENTS AFTER THE BALANCE SHEET DATE

(a) SHARE BUY-BACK PROGRAMME

At the end of January 2008, the Company completed its share buy-back programme of up to \$400 million, which commenced on 24 October 2007. The total number of ordinary shares purchased and cancelled was 15,079,577. At an average price of £12.73 per share, this equated to a total cost of \$390.1 million, including expenses. The average closing price and the volume weighted average price over the same period was £13.21 per share and £13.08 per share, respectively. The issued capital of the Company, after completion of the buy-back programme, is 454,954,288 ordinary shares.

(b) ACQUISITION OF THE EKIBASTUZ COAL-FIRED POWER PLANT AND THE MAIKUBEN WEST COAL MINE

On 5 February 2008 the Company announced that it had signed an agreement with AES Corporation to acquire the Ekibastuz coal-fired power plant and the Maikuben West coal mine. Completion is subject to certain conditions, including obtaining the necessary regulatory approvals from the Government.

The total cost of up to \$1.5 billion includes an initial cash consideration of \$1.1 billion and a deferred cash consideration and other payments of up to \$381 million, payable under earnout provisions. Completion of the acquisition is expected to occur by mid 2008.

(c) PRE-EXPORT FINANCE DEBT FACILITY

On 29 February 2008 the Company signed a five year pre-export finance debt facility of \$2.1 billion with a syndicate of banks to be used for general corporate purposes, including the acquisition of the Ekibastuz power plant.

(d) POST YEAR-END DIVIDEND

The Directors recommend a final ordinary dividend in respect of the year ended 31 December 2007 of 27.4 US cents per share. Subject to approval of shareholders at the Annual General Meeting to be held on 30 April 2008, this dividend shall be paid on 8 May 2008.

Consolidated five year summary

\$ million (unless otherwise stated)	2007	2006	2005	2004	2003
Results					
Revenues	5,256.6	5,046.5	2,597.5	1,259.5	836.9
Profit before taxation, finance items and negative goodwill	2,048.4	2,071.6	842.5	578.5	269.6
Profit before taxation	2,025.9	2,167.8	848.1	665.0	240.1
Profit attributable to equity shareholders	1,426.7	1,399.7	538.8	429.8	134.1
Assets employed					
Non-current assets	5,498.0	1,993.4	1,770.5	1,701.4	1,404.9
Current assets	1,855.6	3,127.1	1,509.5	850.7	645.7
Non-current liabilities	(516.1)	(657.7)	(289.6)	(375.9)	(289.9)
Long-term provisions	(97.7)	(57.4)	(44.5)	(43.5)	(32.1)
Current liabilities	(306.6)	(513.6)	(319.8)	(318.9)	(293.9)
Net assets	6,433.2	3,891.8	2,626.1	1,813.8	1,434.7
Financed by					
Equity	6,419.2	3,859.9	2,599.8	1,766.6	1,397.3
Minority interests	14.0	31.9	26.3	47.2	37.4
	6,433.2	3,891.8	2,626.1	1,813.8	1,434.7
Key statistics					
EBITDA	2,311.9	2,297.4	1,062.1	735.2	403.9
EBITDA excluding special items	2,336.3	2,308.4	1,073.5	791.4	418.7
Underlying Profit	1,409.5	1,402.7	549.8	376.1	149.9
Free Cash Flow	895.3	1,327.2	450.2	405.4	15.1
Return on capital employed (%)	30.9	49.7	31.5	30.2	16.8
EPS – basic and diluted (\$)	3.04	2.99	1.29	1.06	0.33
EPS based on Underlying Profit (\$)	3.02	3.00	1.31	0.93	0.37
Dividends per share (US cents)	89.3	48.8	40.0	13.0	–
Cash cost of copper after by-product credits (USc/lb)	58.9	31.5	42.6	27.9	24.9

Technical description of facilities

KAZAKHMYNS COPPER ZHEZKAZGAN COMPLEX

The Zhezkazgan underground mines continue in normal operation, with mines at Annensky, West, East, South and Stepnoy. The South mine has fully recovered after operations were affected by water ingress during 2007. It is planned to extend the life of the oldest mine, West mine, by bringing in additional reserves at the mine fringes. Equipment and ore handling upgrades are taking place at a number of these mines to maintain operational efficiency. All underground mines at the Zhezkazgan Complex utilise fully-mechanised room-and-pillar methods with pillar extraction.

The North group of open pit mines includes the Akchi Spassky mine and the Zhilandy group of small open pits. Waste stripping continues at Akchi Spassky where production of ore is planned to recommence in 2009. Site works are being prepared within the pit for a new decline to access Akchi Spassky underground reserves. Zhilandy ore production is currently being undertaken at the Kipshakpay and the East and West Sary-Oba pits. Ore production will recommence at the Karashoshak mine early in 2008 where stripping operations are currently under way. These smaller open pits begin to phase out from 2008 onwards, and a number of underground projects have been designed to continue production from this area. Construction of a new underground access at East Sary-Oba has commenced. Waste stripping operations will start at the Itauz pit in early 2008 with ore production beginning later in the year. Construction of a series of small open pits commenced in November 2007 to reclaim pillars at the defunct Kresto mine, near the South mine.

To the south of Zhezkazgan is the Zhomart underground mine, where mechanised room and pillar mining is employed. Improvements to the underground ore handling system and mine power supply are taking place. Near Zhomart is the new Taskura open pit mine where stripping operations commenced at the end of 2007. Ore production will commence during 2008. A new rail link is under construction to link Taskura with the existing railway to Zhezkazgan.

Ore from the Zhezkazgan and Zhomart operations feeds the Satpayev and two Zhezkazgan concentrators, the concentrates from which are processed at the Zhezkazgan smelter and refinery to produce copper cathodes. Refinery slimes, containing precious metals, are sent to the Balkhash Complex for further processing. Kazakhmys LLC also produces sulphuric acid at its Zhezkazgan Complex.

BALKHASH COMPLEX

The Kounrad pit is currently undergoing a waste push back, with only limited amounts of ore are being produced. It is proposed that the pit will gradually return to increased production levels over the next few years, once a decision has been made to re-equip the operation.

At the Sayak I underground mine, a fully-mechanised multi-lift room and pillar method is in use, with sub-level caving in the more steeply dipping areas. Ore from the Kounrad and Sayak mines is railed to the Balkhash concentrator.

At Shatyrkul, continuous retreat sub-level caving is in use. Further mine accesses will be built alongside to enable operations to continue here at current rates of production. Ore is transported by rail from Shatyrkul to Balkhash, but there are plans to build a small concentrator at the site to reduce transport costs.

The Balkhash concentrator also processes ore from the Nurkazgan open pit operations. Concentrates from the Balkhash concentrator are processed at the Balkhash smelter and refinery complex to produce copper cathodes and a small quantity of copper wire. The Balkhash smelter and refinery also process copper concentrates from the East Region operations.

The Balkhash zinc plant treats zinc concentrates from East Region mines. Design upgrades are planned to enable this plant to produce finished zinc at an increased rate. Gold and silver-bearing slimes from the refineries' tankhouse operations are processed in the Balkhash precious metals plant.

A new acid plant is under construction at Balkhash, which will process waste gases from the smelter. The plant was expected to be complete during 2007, but a fire during commissioning has delayed this project. Completion is now expected during 2008. Acid will be sold to third parties and used within the Group.

EAST REGION

In the East Region, Orlovsky uses a horizontal cut-and-fill method with cemented rock fill, enabling full recovery of the ore. Ore is processed at an adjacent concentrator. At Artemyevsky, mechanised open stoping is used with cemented fill to enable pillar recovery. Additional fill plant capacity has been built and hoisting upgrades will further improve operations here. The smaller Belousovsky, and Irtysky mines both employ shrinkage stoping, and in some areas of the Belousovsky mine, mechanised room-and-pillar methods are used. Ore from these mines is processed at a concentrator adjacent to each site. At Yubileyno-Snegirikhinsky mine, sub-level caving is used. Ore from this site is treated at both the Belousovsky and Nikolayevsky concentrators.

Nikolayevsky underground mine has been developed below the open pit. Ore is being produced from a series of open stopes and a second production level is currently under construction.

An access decline into the adjacent North Nikolayevsky deposit is planned to commence during 2008, prior to a production decision being made.

Artemyevsky and Nikolayevsky ore is trucked and railed to the Nikolayevsky concentrator, with some Artemyevsky polymetallic ore being processed by third parties. Kosmurun ore is also treated at Nikolayevsky. Upgrades to the Nikolayevsky concentrator have improved production levels here.

Technical description of facilities continued

KARAGANDA REGION

At Nurkazgan, operations in the West open pit are due to finish in 2008, and ore mining in the re-established North pit commenced in January 2008. Both open pits employ conventional truck and shovel operations.

Construction of an underground mine beneath West pit is under way, and new access declines are well advanced. Construction of new ventilation shaft has commenced. Ore production will commence during the latter half of 2008 with full production in 2009. Sub level caving will be used.

Ore from Nurkazgan is currently being railed to Balkhash, but a new concentrator has been built at Nurkazgan and is due for commissioning in the first half of 2008, with full operations in the latter half of the year. Some ore at Nurkazgan is being stockpiled at site to feed this new concentrator.

The Kosmurun open pit will be completed during 2008, and operations will continue at the nearby Akbastau open pit, where stripping commenced during 2007. The first ore was mined in January 2008. Conventional truck and shovel methods are used at both of these pits, and ore is trucked to the Karagaily site. Kosmurun ore is railed on to the Nikolayevsky concentrator plant, and Akbastau ore is treated at Karagaily. A new concentrator is planned at the Kosmurun site to treat Akbastau open pit ore and, eventually, ore from the planned underground mine at Kosmurun.

Waste stripping operations took place at the Abyz open pit during 2007, and ore mining recommenced in January 2008. Ore from Abyz is trucked and railed to the Karagaily concentrator for treatment. Karagaily copper and zinc concentrates are railed to the Balkhash smelter.

Operations at the Kuu-Chekinsky and Molodezhny open pit coal mines continued normally during 2007. Equipment upgrades are planned for 2008. Coal produced is used within Kazakhmys LLC for heating and power generation and is also sold to third parties.

The Boschekul project has reached the pre-feasibility stage, and the study is due by the end of 2008. The concept is a large open pit mine and concentrator.

The pre-feasibility study for the Aktogay deposit is looking initially at the oxide resources, with a number of treatment concepts under review. A decision on the mining of the larger sulphide resources will be taken later. A power line to this site is under construction and is due for completion in 2008. A railway is also under construction and due for completion in 2008/09.

KAZAKHMYNS GOLD

Kazakhmys Gold operates three open pit mines in Kazakhstan – Mizek, Central Mukur and Zhaima. All of these mines currently operate conventional shovel and truck open pit mining technology.

The Mizek mine consists of two operational pits. At Central Mukur, several small open pits are operated, while at the Zhaima mine, two pits are operated.

Heap leaching is used to extract the gold from the ore. The Mizek mine operates a carbon-in-pulp hydrometallurgical plant, while the Central Mukur mine and Zhaima mine operate resin-in-pulp processes for extracting the gold from the solution. An electrowinning operation is carried out at the Mizek site for the Mizek mine and electrowinning operations for the Central Mukur mine and the Zhaima mine are located in Semey. Calcine received from both electrowinning operations is then dispatched to a final refining stage in Switzerland.

At the Mizek mine a copper extraction plant was commissioned in November 2007 in order to remove copper impurities disturbing the gold leaching process from the solution, and to recover cyanide consumed by copper leaching. During this cleaning process a copper concentrate is produced as a side product, which is currently being sold to third parties.

Currently all three operating mines of Kazakhmys Gold are mining oxide ores. For the Mizek mine a pre-feasibility study for mining primary resources located underneath the oxide ore is being prepared. The study is scheduled to be finished in mid 2008.

Kazakhmys Gold holds licenses for two additional properties, the Akjilga silver project in Tajikistan and the Bozymchak copper-gold project in Kyrgyzstan.

For the Bozymchak project a pre-feasibility study is being prepared and is due for completion in mid 2008. If the pre-feasibility study demonstrates favourable results, a feasibility study is planned for 2008. Based on preliminary planning work, the Bozymchak project would be mined with a combination of open pit and underground methods.

The Akjilga project is located in the east of Tajikistan in an area with elevations above 4,000 m. In 2008 there is additional exploration work scheduled. The Akjilga project would be a predominantly underground operation, if construction goes ahead in the future.

Production and sales figures

1. SUMMARY OF SIGNIFICANT PRODUCTION AND SALES FIGURES

kt (unless otherwise stated)	2007	2006
Kazakhmys Copper		
Ore mined	33,967	39,240
Copper content in ore mined (%)	1.22	1.17
Copper cathode production:		
From own concentrate	341	368
From purchased concentrate	39	37
Total copper cathodes produced (excluding tolling)	380	405
Tolling	1	2
Total copper cathodes produced (including tolling)	381	407
Total copper cathodes and copper rods sold	386	368
MKM		
Wire sales	155	167
Flat sales	66	63
Tubes and bars sales	44	43
Total MKM sales	265	273
Kazakhmys Gold¹		
Ore extraction	1,206	–
Gold ore grade (g/t)	1.52	–
Total gold doré produced (koz)	32.5	–
Total gold doré sold (koz)	34.1	–

¹ Kazakhmys Gold was acquired on 5 July 2007.

Production and sales figures continued

2. KAZAKHMYNS COPPER – MINING METAL MINING

	Ore mined		Copper		Zinc		Gold		Silver	
	2007 kt	2006 kt	2007 %	2006 %	2007 %	2006 %	2007 g/t	2006 g/t	2007 g/t	2006 g/t
Zhezkazgan Complex										
North	2,375	3,143	0.65	0.66	–	–	–	–	8.25	7.36
South	5,220	6,818	0.69	0.72	–	–	–	–	16.86	14.08
Stepnoy	2,849	3,200	0.80	0.79	–	–	–	–	11.81	16.58
East	5,615	5,502	0.82	0.88	–	–	–	–	16.82	19.29
West	2,054	2,585	0.37	0.41	–	–	–	–	11.11	14.26
Annensky	3,360	4,225	1.03	1.10	–	–	–	–	21.86	23.75
Zhomart	2,882	2,203	1.27	1.16	–	–	–	–	8.15	5.78
Total Zhezkazgan Complex	24,355	27,676	0.82	0.82	–	–	–	–	14.59	15.47
Balkhash Complex										
Kounrad	403	2,267	0.30	0.35	–	–	–	–	0.86	1.81
Shatyrkul	351	441	2.05	2.03	–	–	0.30	0.31	1.71	2.59
Sayak I and III	1,372	1,663	1.02	1.11	–	–	0.34	0.27	5.22	6.12
Total Balkhash Complex	2,126	4,371	1.05	0.81	–	–	0.33¹	0.28¹	3.82	3.53
East Region										
Orlovsky	1,231	1,542	5.24	4.69	4.60	3.72	0.59	0.58	55.90	52.35
Belousovsky	163	246	0.85	1.00	2.87	3.52	0.46	0.50	47.89	52.60
Irtysky	390	449	1.39	1.26	3.24	2.80	0.37	0.31	53.66	44.10
Nikolayevsky	532	578	1.75	1.47	3.07	2.48	0.71	0.26	38.60	24.50
Yubileyno-Snegirikhinsky	429	344	3.31	4.20	3.27	3.05	0.70	0.57	49.23	37.41
Artemyevsky	1,395	1,282	1.65	1.74	5.19	6.91	1.28	1.66	95.99	143.23
Total East Region	4,140	4,441	2.85	2.83	4.27	4.32	0.82	0.82	65.97	72.98
Karaganda Region										
Abyz	–	210	–	1.67	–	3.47	–	3.67	–	47.89
Akbastau	40	–	3.91	–	2.84	–	1.80	–	33.43	–
Nurkazgan	1,842	1,670	1.11	1.17	–	–	0.32	0.31	2.77	3.71
Kosmurun	1,464	872	3.55	5.53	2.77	–	2.46	1.87	36.72	31.97
Total Karaganda Region	3,346	2,752	2.21	2.59	2.77²	3.47⁴	1.27	1.06	17.99	16.04
Total Kazakhmys Copper	33,967	39,240	1.22	1.17	3.87³	4.28⁵	0.90⁶	0.77⁶	20.52	20.69

¹ Production only from Shatyrkul, and Sayak I and III mines in Balkhash Complex.

² Production only from Kosmurun and Akbastau mines.

³ Production only from East Region, Kosmurun and Akbastau mines of Karaganda Region.

⁴ Production only from Abyz mine.

⁵ Production only from East Region and Abyz mine of Karaganda Region.

⁶ Production only from Balkhash Complex (excluding Kounrad mine), East Region and Karaganda Region (excluding Akbastau mine).

COAL MINING

	Coal mined		Waste stripped		Strip ratio	
	2007 kt	2006 kt	2007 kbcm	2006 kbcm	2007 bcm:t	2006 bcm:t
Molodezhny	6,650	6,400	11,730	9,330	1.76	1.46
Kuu-Chekinsky	850	872	3,854	4,045	4.53	4.64
Total Kazakhmys Copper	7,500	7,272	15,584	13,375	2.08	1.84

3. KAZAKHMYC COPPER – PROCESSING

	Copper concentrate produced		Copper in concentrate	
	2007 kt	2006 kt	2007 %	2006 %
Zhezkazgan Complex				
Zhezkazgan No.1	195	189	39.4	40.0
Zhezkazgan No.2	173	205	39.0	39.6
Satpayev	123	147	27.8	28.8
Total Zhezkazgan Complex	491	541	36.4	36.8
Balkhash Complex				
Balkhash	188	257	17.3	16.9
Total Balkhash Complex	188	257	17.3	16.9
East Region				
Orlovsky	284	309	20.9	21.1
Belousovsky	18	20	16.4	13.7
Irtysky	29	26	15.3	13.4
Nikolayevsky	175	179	16.7	15.1
Total East Region	506	534	18.9	18.5
Karaganda Region				
Karagaily (Abyz)	–	47	–	4.0
Karagaily (Akbastau)	3	–	14.1	–
Karagaily (Kosmurun)	229	184	14.4	17.3
Total Karaganda Region	232	231	14.4	14.6
Own copper concentrate processed by third party	29	33	26.4	24.6
Total Kazakhmys Copper (own concentrate)	1,446	1,596	24.1	24.0
Purchased concentrate	152	214	27.6	23.5
Total Kazakhmys Copper (own and purchased concentrate)	1,598	1,810	24.4	24.0

Production and sales figures continued

4. KAZAKHMYNS COPPER – ZINC AND PRECIOUS METALS PROCESSING

	Zinc concentrate produced		Zinc in concentrate		Silver ¹		Gold ¹	
	2007 kt	2006 kt	2007 %	2006 %	2007 g/t	2006 g/t	2007 g/t	2006 g/t
Zhezkazgan Complex								
Zhezkazgan No.1	–	–	–	–	677.0	712.5	–	–
Zhezkazgan No.2	–	–	–	–	660.6	733.5	–	–
Satpayev	–	–	–	–	600.7	636.7	–	–
Total Zhezkazgan Complex	–	–	–	–	652.1	699.8	–	–
Balkhash Complex								
Balkhash	–	–	–	–	56.5	53.4	3.6	2.7
Total Balkhash Complex	–	–	–	–	56.5	53.4	3.6	2.7
East Region								
Orlovsky	91	88	45.1	45.3	103.8	101.4	1.2	1.1
Belousovsky	10	14	40.4	41.8	220.2	398.8	3.1	3.7
Irtysky	17	13	35.9	39.0	561.2	467.8	2.4	2.2
Nikolayevsky	84	55	41.8	39.5	200.7	157.1	2.7	1.6
Artemyevsky (KazZinc)	86	106	52.8	51.8	2,523.0 ³	2,369.5 ³	14.1 ³	20.8 ³
Total East Region	288	276	42.7 ²	42.7 ²	295.2 ²	149.3 ²	2.5 ²	1.4 ²
Karaganda Region								
Karagaily	3	5	29.5	33.4	96.1	103.3	4.0	5.4
Total Karaganda Region	3	5	29.5	33.4	96.1	103.3	4.0	5.4
Total Kazakhmys Copper	291	281	42.6 ²	42.4 ²	353.5 ²	317.2 ²	2.0 ²	2.7 ²

¹ Grade in grammes per tonne of copper concentrate.

² Production only from own concentrators within East Region.

³ Includes gold and silver content in gravity concentrate toll processed by KazZinc from Artemyevsky ore.

5. KAZAKHMYNS COPPER – COPPER CATHODES PRODUCTION

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2007 kt	2006 kt	2007 %	2006 %	2007 kt	2006 kt
Zhezkazgan Complex						
Own concentrate	569	632	33.7	34.0	183	215
Purchased concentrate	7	26	33.8	31.1	4	6
Other ¹	70	101	1.1	0.7	1	–
Total Zhezkazgan Complex	646	759	30.2	29.5	188	221
Balkhash Complex						
Own concentrate	931	990	18.2	16.9	156	153
Purchased concentrate	163	170	26.7	22.0	35	31
Other ¹	82	85	2.8	3.1	1	–
Total Balkhash Complex	1,176	1,245	18.3	16.6	192	184
Total Kazakhmys Copper (excluding tolling)	1,822	2,004	22.5	21.5	380	405
Tolling	1	2	66.2	73.5	1	2
Total Kazakhmys Copper (including tolling)	1,823	2,006	22.6	21.6	381	407

¹ Includes materials (slag, scrap, etc.) and ore used directly in smelting process reprocessed at both the Zhezkazgan and Balkhash Complexes.

6. KAZAKHMYNS COPPER – COPPER ROD AND ACID PRODUCTION

	Copper rod		Acid production	
	2007 kt	2006 kt	2007 kt	2006 kt
Total Kazakhmys Copper (Zhezkazgan Complex)	36	29	149	202

7. KAZAKHMYNS COPPER – ZINC METAL PRODUCTION

	Zinc concentrate smelted		Zinc in concentrate		Zinc metal	
	2007 kt	2006 kt	2007 %	2006 %	2007 kt	2006 kt
Total Kazakhmys Copper (Balkhash Complex)	137	155	43.8	45.4	45	60

8. KAZAKHMYNS COPPER – PRECIOUS METAL PRODUCTION

	Silver		Gold	
	2007 koz	2006 koz	2007 koz	2006 koz
Kazakhmys Copper	18,985	21,530	113	107
Tolling	10	40	24	59
Total Kazakhmys Copper (including tolling)	18,995	21,570	137	166

9. KAZAKHMYNS COPPER – OTHER PRODUCTION

	2007	2006
Electricity power space (GWh)	6,409	6,589
Heating power (KGcal)	4,343	4,153
Enamel wire (t)	843	558
Lead dust (t)	8,773	12,622

10. KAZAKHMYNS COPPER – SALES

	2007		2006	
	kt ¹	\$ million	kt ¹	\$ million
Copper cathodes	351	2,516.2	340	2,389.0
Copper rod	35	250.6	28	196.1
Total copper sales	386	2,766.8	368	2,585.1
Zinc metal in concentrate	89	200.5	67	128.0
Zinc metal	38	123.8	64	201.3
Silver (koz)	19,323	256.5	20,962	239.1
Gold (koz)	116	80.3	84	51.2

¹ Kilotonnes (unless otherwise stated)

11. AVERAGE REALISED PRICES

	2007	2006
Copper (\$/t)	7,175	7,025
Zinc (\$/t)	3,237	3,145
Silver (\$/oz)	13.27	11.41
Gold (\$/oz)	695	610

Production and sales figures continued

12. MKM – PRODUCTION AND SALES

	2007		2006	
	Production kt	Sales kt	Production kt	Sales kt
Wire rod	117	115	129	129
Drawn wire	40	40	39	38
Total wire	157	155	168	167
Pre-rolled	2	2	2	2
Sheets	15	15	15	15
Strips	49	49	45	46
Total flat	66	66	62	63
Tubes	19	19	21	20
Bars	25	25	23	23
Total tubes and bars	44	44	44	43
Total MKM	267	265	274	273

13. KAZAKHMYS GOLD – PRODUCTION AND SALES

	July – December 2007 ¹
Ore extraction (kt)	1,206
Gold ore grade (g/t)	1.52
Gold precipitation (koz)	32.7
Gold doré production (koz)	32.5
Silver production (koz)	20.7
Gold doré sales (koz)	34.1

¹ Kazakhmys Gold was acquired on 5 July 2007.

Mining reserves and resources

KAZAKHMYNS COPPER – RESERVES AND RESOURCES ESTIMATION METHODS

The Republic of Kazakhstan has incorporated by law the classification system and estimation methods for reserves and resources established by the Former Soviet Union (FSU) and later revised in 1981. In practice, this means that the statements of reserves and resources developed by Kazakhmys LLC and the mining plans to which they relate must be submitted for approval to the corresponding committees of the Ministry of Energy and Mineral Resources for which adherence to the standardised national system of reserves and resources estimation is mandatory.

As part of the exploitation licence for each mineral deposit, a set of Conditions for Estimation of Reserves were prepared by the corresponding National Design Institute and were approved within the national (formerly USSR) state plan. The Conditions apply a well-defined process of classifying the specific deposit into one of five major deposit categories, subject to which, the principles for exploration and classification of reserves and resources have been established. The Conditions for Estimation of Reserves for each deposit specify the method of computation of reserve blocks, the minimum thickness for exploitation of the ore body and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties.

Reserves and resources have been estimated by Kazakhmys LLC according to the FSU 'Classification and Estimation Methods for Reserves and Resources'. It is apparent that there is now more scope than before for flexibility and discussion with state authorities with respect to ore reserve estimation methods. This has been reflected in the steps taken by Kazakhmys LLC to prepare the records and reserves development plans for the Zhezkazgan mines as Computer-Aided-Design (CAD) files and to use these as the basis for revised estimation of reserves volumes and to support improved estimation of ore grades. IMC recognises this as an important step to achieve verifiable and internally consistent estimates. Related initiatives are the current evaluation of a number of industry-standard resource modelling software systems, particularly for the Zhezkazgan operations, and also the resource modelling in progress in conjunction with project design and evaluation for the new major projects in the Balkhash Complex, at Aktogay and Boschekul.

IMC has reviewed the reserves and resources statements of Kazakhmys LLC and has restated the reserves and resources in accordance with the criteria required to meet JORC standards. As a general rule, in situ tonnages quoted as balance reserves under the national system, and which meet criteria for categories of confidence and which can be considered to have the potential for future economic extraction, are assessed as resources. The Kazakhmys LLC internal reporting system derives from these resources a category designated commercial reserves, on which production planning is based, estimated only from 'active' resources to which modifying factors for losses and dilution are applied; these estimates form the basis for the process of restatement of reserves in accordance with JORC compliant criteria. All reserves quoted in the following tables are discounted for ore losses and dilution. Resources are not discounted for losses and dilution and are inclusive of reserves. All figures in reserves and resources are in metric tonnes and are dated 31 December 2007.

KAZAKHMYNS COPPER – SUMMARY OF METAL RESERVES¹

Complex/Region		Reserves ¹ kt	Copper %	Zinc %	Gold g/t	Silver g/t	Lead %
Zhezkazgan Complex	Proved	97,893	0.74	–	–	–	–
	Probable	326,459	0.89	–	–	–	–
	Total	424,352	0.86	–	–	12.33	–
Balkhash Complex	Proved	511,957	0.50	–	–	–	–
	Probable	1,485,828	0.37	–	0.01	0.07	–
	Total	1,997,785	0.40	–	0.06	1.66	–
East Region	Proved	16,721	3.15	4.65	–	–	0.95
	Probable	45,132	3.04	4.42	–	–	1.05
	Total	61,853	3.07	4.49	0.88	59.04	1.02
Karaganda Region	Proved	73,454	1.08	0.02	0.35	2.35	–
	Probable	167,800	1.02	0.21	0.50	4.49	–
	Total	241,254	1.04	0.15	0.45	3.84	–
Total Kazakhmys Copper	Proved	700,025	0.66	0.11	0.04	0.25	0.02
	Probable	2,025,219	0.57	0.12	0.05	0.42	0.02
	Total	2,725,244	0.59	0.12	0.10	4.82	0.02

¹ Includes discounts for ore loss and dilution. Reserves = Resources - Ore Loss + Dilution.

Mining reserves and resources continued

KAZAKHMYNS COPPER – SUMMARY OF METAL RESOURCES¹

Complex/Region		Resources ¹ kt	Copper %	Zinc %	Gold g/t	Silver ² g/t	Lead %
Zhezkazgan Complex	Measured	129,001	0.86	–	–	–	–
	Indicated	524,318	0.95	–	–	–	–
	Total	653,319	0.93	–	–	13.54	–
	Inferred	42,866	1.26	–	–	–	–
Balkhash Complex	Measured	486,730	0.54	–	–	–	–
	Indicated	1,424,519	0.43	–	0.01	0.13	–
	Total	1,911,249	0.46	–	0.06	1.84	–
	Inferred	–	–	–	–	–	–
East Region	Measured	15,783	3.55	5.20	1.03	60.28	1.06
	Indicated	61,447	2.89	5.20	0.84	69.56	1.33
	Total	77,230	3.02	5.20	0.93	72.61	1.28
	Inferred	11,340	1.13	3.72	0.39	58.64	0.69
Karaganda Region	Measured	70,924	1.16	0.03	0.39	2.56	–
	Indicated	165,000	1.12	0.28	0.61	5.42	–
	Total	235,924	1.14	0.20	0.54	4.56	–
	Inferred	9,136	1.03	0.70	1.19	11.07	–
Total Kazakhmys Copper	Measured	702,438	0.73	0.12	0.06	1.61	0.02
	Indicated	2,175,284	0.68	0.17	0.08	2.46	0.04
	Total	2,877,722	0.69	0.16	0.11	6.62	0.03
	Inferred	63,342	1.20	0.77	0.24	12.09	0.12

¹ Resources include undiscounted reserves. No ore loss or dilution has been included.

² Silver values for Zhezkazgan Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

KAZAKHMYNS COPPER – METAL RESERVES

Zhezkazgan Complex		Reserves kt	Copper %	Zinc %	Gold g/t	Silver ¹ g/t	Lead %
Annensky LOM 12 Years	Proved	8,241	0.63	–	–	–	–
	Probable	40,687	0.97	–	–	–	–
	Total	48,928	0.91	–	–	11.28	–
East LOM 10 Years	Proved	12,403	0.58	–	–	–	–
	Probable	42,156	0.69	–	–	–	–
	Total	54,559	0.66	–	–	18.80	–
North (including Taskura) LOM 12 Years	Proved	14,494	0.69	–	–	–	–
	Probable	37,213	0.69	–	–	–	–
	Total	51,707	0.69	–	–	8.84	–
South LOM 12 Years	Proved	19,466	0.49	–	–	–	–
	Probable	54,963	0.66	–	–	–	–
	Total	74,429	0.62	–	–	13.65	–
Stepnoy LOM +20 Years	Proved	13,684	0.70	–	–	–	–
	Probable	63,849	0.61	–	–	–	–
	Total	77,533	0.63	–	–	11.16	–
West LOM 11 Years	Proved	9,034	0.48	–	–	–	–
	Probable	16,804	0.53	–	–	–	–
	Total	25,838	0.51	–	–	5.85	–
Zhilandy LOM +20 Years	Proved	4,312	1.31	–	–	–	–
	Probable	17,743	1.38	–	–	–	–
	Total	22,055	1.37	–	–	22.44	–
Zhomart LOM 17 Years	Proved	16,259	1.29	–	–	–	–
	Probable	53,044	1.67	–	–	–	–
	Total	69,303	1.58	–	–	9.66	–
Total Zhezkazgan Complex	Proved	97,893	0.74	–	–	–	–
	Probable	326,459	0.89	–	–	–	–
	Total	424,352	0.86	–	–	12.33	–
Balkhash Complex		Reserves kt	Copper %	Zinc %	Gold g/t	Silver ² g/t	Lead %
Aktogay LOM +20 Years	Proved	290,190	0.42	–	–	–	–
	Probable	1,323,801	0.34	–	–	–	–
	Total	1,613,991	0.35	–	0.03	0.95	–
Boschekul LOM 10 Years	Proved	159,048	0.67	–	–	–	–
	Probable	27,044	0.60	–	–	–	–
	Total	186,092	0.66	–	0.26	8.41	–
Kounrad LOM +20 Years	Proved	56,559	0.37	–	–	–	–
	Probable	117,377	0.29	–	–	–	–
	Total	173,936	0.32	–	0.01	0.39	–
Sayak I & III LOM 3 Years	Proved	6,160	1.10	–	–	–	–
	Probable	–	–	–	–	–	–
	Total	6,160	1.10	–	0.26	5.38	–
Shatyrkul LOM +20 Years	Proved	–	–	–	–	–	–
	Probable	17,606	3.00	–	0.69	6.11	–
	Total	17,606	3.00	–	0.69	6.11	–
Total Balkhash Complex	Proved	511,957	0.50	–	–	–	–
	Probable	1,485,828	0.37	–	0.01	0.07	–
	Total	1,997,785	0.40	–	0.06	1.66	–

¹ Silver values for the Zhezkazgan Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

² Silver values for the Balkhash Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

Mining reserves and resources continued

		Reserves kt	Copper %	Zinc %	Gold g/t	Silver g/t	Lead %
East Region							
Artemyevsky LOM 7 Years	Proved	1,500	1.95	5.54	–	–	1.67
	Probable	9,988	2.23	6.48	–	–	1.89
	Total	11,488	2.19	6.36	1.47	120.24	1.86
Belousovsky LOM 12 Years	Proved	1,158	1.48	5.72	–	–	1.68
	Probable	4,325	0.73	3.22	–	–	0.74
	Total	5,483	0.89	3.75	0.61	60.17	0.94
Irtyshtsky LOM +20 Years	Proved	2,947	1.31	4.49	–	–	0.72
	Probable	8,118	1.82	4.70	–	–	0.68
	Total	11,065	1.68	4.64	0.24	60.29	0.69
Nikolayevsky LOM 9 Years	Proved	3,334	5.24	5.95	–	–	–
	Probable	1,949	1.77	8.73	–	–	–
	Total	5,283	3.96	6.98	1.31	55.31	–
Orlovsky LOM 15 Years	Proved	6,728	3.37	3.59	–	–	1.29
	Probable	19,358	4.58	3.14	–	–	0.98
	Total	26,086	4.27	3.26	0.89	33.79	1.06
Yubileyno-Snegirikhinsky LOM 4 Years	Proved	1,054	3.90	5.34	–	–	0.68
	Probable	1,394	3.43	3.64	–	–	0.47
	Total	2,448	3.63	4.37	0.55	40.87	0.56
Total East Region	Proved	16,721	3.15	4.65	–	–	0.95
	Probable	45,132	3.04	4.42	–	–	1.05
	Total	61,853	3.07	4.49	0.88	59.04	1.02
Karaganda Region							
Abyz LOM 5 Years open pit (10 years u/g)	Proved	–	–	–	–	–	–
	Probable	2,660	1.50	3.84	5.42	46.82	–
	Total	2,660	1.50	3.84	5.42	46.82	–
Akbastau LOM 12 Years (9 Years open pit)	Proved	–	–	–	–	–	–
	Probable	12,848	1.57	0.93	0.52	13.85	–
	Total	12,848	1.57	0.93	0.52	13.85	–
Kosmurun LOM 13 Years	Proved	613	3.00	2.90	1.86	29.62	–
	Probable	18,821	2.95	0.69	0.91	16.92	–
	Total	19,434	2.95	0.76	0.94	17.32	–
Nurkazgan LOM +20 Years	Proved	72,841	1.06	–	0.34	2.12	–
	Probable	133,471	0.69	–	0.34	0.99	–
	Total	206,312	0.82	–	0.34	1.39	–
Total Karaganda Region	Proved	73,454	1.08	0.02	0.35	2.35	–
	Probable	167,800	1.02	0.21	0.50	4.49	–
	Total	241,254	1.04	0.15	0.45	3.84	–

KAZAKHMYS COPPER – METAL RESOURCES

Zhezkazgan Complex		Resources kt	Copper %	Zinc %	Gold g/t	Silver ¹ g/t	Lead %
Annensky	Measured	9,780	0.66	–	–	–	–
	Indicated	48,284	1.02	–	–	–	–
	Total	58,064	0.96	–	–	11.90	–
	Inferred	–	–	–	–	–	–
East	Measured	14,789	0.62	–	–	–	–
	Indicated	50,265	0.74	–	–	–	–
	Total	65,054	0.71	–	–	20.22	–
	Inferred	7,218	0.81	–	–	–	–
North (including Taskura)	Measured	19,885	0.71	–	–	–	–
	Indicated	43,295	0.70	–	–	–	–
	Total	63,180	0.70	–	–	9.00	–
	Inferred	97	0.34	–	–	–	–
South	Measured	22,955	0.52	–	–	–	–
	Indicated	64,814	0.70	–	–	–	–
	Total	87,769	0.65	–	–	14.32	–
	Inferred	–	–	–	–	–	–
Stepnoy	Measured	16,140	0.76	–	–	–	–
	Indicated	75,307	0.66	–	–	–	–
	Total	91,447	0.68	–	–	12.05	–
	Inferred	–	–	–	–	–	–
West	Measured	9,416	0.56	–	–	–	–
	Indicated	17,420	0.66	–	–	–	–
	Total	26,836	0.62	–	–	7.23	–
	Inferred	–	–	–	–	–	–
Zhilandy (underground)	Measured	20,327	1.40	–	–	–	–
	Indicated	78,026	1.39	–	–	–	–
	Total	98,353	1.39	–	–	16.82	–
	Inferred	35,551	1.35	–	–	–	–
Zhomart	Measured	15,709	1.45	–	–	–	–
	Indicated	146,907	1.12	–	–	–	–
	Total	162,616	1.15	–	–	12.68	–
	Inferred	–	–	–	–	–	–
Total Zhezkazgan Complex	Measured	129,001	0.86	–	–	–	–
	Indicated	524,318	0.95	–	–	–	–
	Total	653,319	0.93	–	–	13.54	–
	Inferred	42,866	1.26	–	–	–	–

¹ Silver values for the Zhezkazgan Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

Mining reserves and resources continued

Balkhash Complex		Resources kt	Copper %	Zinc %	Gold g/t	Silver ¹ g/t	Lead %
Aktogay	Measured	274,800	0.46	—	—	—	—
	Indicated	1,253,600	0.37	—	—	—	—
	Total	1,528,400	0.39	—	0.03	1.03	—
	Inferred	—	—	—	—	—	—
Boschekul	Measured	150,614	0.73	—	—	—	—
	Indicated	25,610	0.65	—	—	—	—
	Total	176,224	0.72	—	0.28	9.16	—
	Inferred	—	—	—	—	—	—
Kounrad	Measured	55,234	0.38	—	—	—	—
	Indicated	114,626	0.30	—	—	—	—
	Total	169,860	0.33	—	0.01	0.41	—
	Inferred	—	—	—	—	—	—
Sayak I & III	Measured	6,082	1.29	—	—	—	—
	Indicated	5,807	1.41	—	—	—	—
	Total	11,889	1.35	—	0.35	6.61	—
	Inferred	—	—	—	—	—	—
Shatyrkul	Measured	—	—	—	—	—	—
	Indicated	24,876	3.53	—	0.81	7.43	—
	Total	24,876	3.53	—	0.81	7.43	—
	Inferred	—	—	—	—	—	—
Total Balkhash Complex	Measured	486,730	0.54	—	—	—	—
	Indicated	1,424,519	0.43	—	0.01	0.13	—
	Total	1,911,249	0.46	—	0.06	1.84	—
	Inferred	—	—	—	—	—	—
¹ Silver values for the Balkhash Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.							
East Region		Resources kt	Copper %	Zinc %	Gold g/t	Silver g/t	Lead %
Artemyevsky	Measured	1,454	2.10	5.73	1.41	115.30	1.79
	Indicated	27,120	2.07	6.35	1.09	110.89	1.87
	Total	28,574	2.07	6.32	1.11	111.11	1.87
	Inferred	—	—	—	—	—	—
Belousovsky	Measured	1,007	1.79	6.92	—	—	2.03
	Indicated	5,135	0.75	3.82	—	—	0.86
	Total	6,142	0.92	4.33	0.63	62.20	1.05
	Inferred	6,653	0.41	3.61	0.38	37.21	0.74
Irtyshtsky	Measured	2,522	1.60	5.52	0.38	79.00	0.89
	Indicated	6,947	2.24	5.78	0.27	72.25	0.84
	Total	9,469	2.07	5.71	0.30	74.05	0.85
	Inferred	4,343	2.06	4.00	0.41	94.52	0.63
Nikolayevsky	Measured	3,204	5.89	6.69	1.54	63.35	—
	Indicated	1,873	1.99	9.82	1.34	60.12	—
	Total	5,077	4.45	7.84	1.47	62.16	—
	Inferred	—	—	—	—	—	—
Orlovsky	Measured	6,641	3.58	3.82	1.17	51.17	1.37
	Indicated	19,109	4.87	3.34	0.87	30.63	1.05
	Total	25,750	4.54	3.46	0.95	35.93	1.13
	Inferred	—	—	—	—	—	—
Yubileyno-Snegirikhinsky	Measured	955	4.68	6.41	0.65	43.76	0.82
	Indicated	1,263	4.12	4.37	0.67	53.12	0.56
	Total	2,218	4.36	5.25	0.66	49.09	0.67
	Inferred	344	3.43	2.24	0.31	20.06	0.32
Total East Region	Measured	15,783	3.55	5.20	1.03	60.28	1.06
	Indicated	61,447	2.89	5.20	0.84	69.56	1.33
	Total	77,230	3.02	5.20	0.93	72.61	1.28
	Inferred	11,340	1.13	3.72	0.39	58.64	0.69

Karaganda Region		Resources kt	Copper %	Zinc %	Gold g/t	Silver g/t	Lead %
Abyz	Measured	—	—	—	—	—	—
	Indicated	5,716	1.82	3.48	4.95	42.06	—
	Total	5,716	1.82	3.48	4.95	42.06	—
	Inferred	1,890	1.02	3.40	3.85	38.31	—
Akbastau	Measured	—	—	—	—	—	—
	Indicated	12,436	1.67	0.99	0.55	14.73	—
	Total	12,436	1.67	0.99	0.55	14.73	—
	Inferred	—	—	—	—	—	—
Kosmurun	Measured	595	3.17	3.07	2.17	31.34	—
	Indicated	18,139	3.19	0.74	0.99	18.34	—
	Total	18,734	3.19	0.81	1.03	18.75	—
	Inferred	—	—	—	—	—	—
Nurkazgan	Measured	70,329	1.14	—	0.37	2.32	—
	Indicated	128,709	0.75	—	0.37	1.07	—
	Total	199,038	0.89	—	0.37	1.51	—
	Inferred	7,246	1.03	—	0.49	3.97	—
Total Karaganda Region	Measured	70,924	1.16	0.03	0.39	2.56	—
	Indicated	165,000	1.12	0.28	0.61	5.42	—
	Total	235,924	1.14	0.20	0.54	4.56	—
	Inferred	9,136	1.03	0.70	1.19	11.07	—
COAL RESERVES							
Karaganda				Reserves ¹ MT	Ash ad ² kcal/kg	CV ncvar ³ g/t	Sulphur %
Molodezhny	Proved			291.6	—	—	—
	Probable			94.1	—	—	—
	Total			385.7	47.0	3,762	0.5
Kuu-Chekinsky	Proved			17.6	—	—	—
	Probable			5.8	—	—	—
	Total			23.4	41.0	4,158	0.6
Total Karaganda Region	Proved			309.2	—	—	—
	Probable			99.9	—	—	—
	Total			409.1	46.7	3,785	0.5

¹ Includes coal loss and increase in ash content.

² ad – refers to air dried.

³ ncvar - refers to net calorific value as received.

Mining reserves and resources continued

KAZAKHMY'S COPPER – CHANGES IN MINING RESERVES AND RESOURCES

The total measured and indicated resources of Kazakhmys Copper have decreased during 2007 to a total of 2,878 MT, as compared with 2,906 MT at 31 December 2006. Reasons for the changes by Complex/Region are shown below.

Changes in reserves and resource totals for the mining operational regions are summarised in the tables below.

COMPARATIVE CHANGES IN RESERVES¹ TOTALS

Complex/Region		At 31 December 2007		At 31 December 2006 ²	
		Reserves kt	Copper %	Reserves kt	Copper %
Zhezkazgan Complex	Proved	97,893	0.74	142,846	0.84
	Probable	326,459	0.89	279,186	0.96
	Total	424,352	0.86	422,032	0.92
Balkhash Complex	Proved	511,957	0.50	505,907	0.49
	Probable	1,485,828	0.37	1,508,883	0.40
	Total	1,997,785	0.40	2,014,790	0.42
East Region	Proved	16,721	3.15	21,433	2.42
	Probable	45,132	3.04	54,948	2.82
	Total	61,853	3.07	76,381	2.71
Karaganda Region	Proved	73,454	1.08	74,683	1.06
	Probable	167,800	1.02	156,996	1.01
	Total	241,254	1.04	231,679	1.03
Total Kazakhmys Copper	Proved	700,025	0.66	744,869	0.67
	Probable	2,025,219	0.57	2,000,013	0.59
	Total	2,725,244	0.59	2,744,882	0.61

¹ Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

² Figures quoted as at 31 December 2006 are as per the 2006 Annual Report and do not include subsequent revisions made by Kazakhmys during 2007.

COMPARATIVE CHANGES IN RESOURCES¹ TOTALS

Complex/Region		At 31 December 2007		At 31 December 2006 ²	
		Resources kt	Copper %	Resources kt	Copper %
Zhezkazgan Complex	Measured	129,001	0.86	169,385	0.94
	Indicated	524,318	0.95	502,884	1.22
	Total	653,319	0.93	672,269	1.15
	Inferred	42,866	1.26	–	–
Balkhash Complex	Measured	486,730	0.54	480,755	0.54
	Indicated	1,424,519	0.43	1,432,765	0.43
	Total	1,911,249	0.46	1,913,520	0.46
	Inferred	–	–	–	–
East Region	Measured	15,783	3.55	20,001	2.79
	Indicated	61,447	2.89	73,663	2.70
	Total	77,230	3.02	93,664	2.72
	Inferred	11,340	1.13	11,340	1.13
Karaganda Region	Measured	70,924	1.16	72,018	1.14
	Indicated	165,000	1.12	154,549	1.11
	Total	235,924	1.14	226,567	1.12
	Inferred	9,136	1.03	9,136	1.03
Total Kazakhmys Copper	Measured	702,438	0.73	742,159	0.75
	Indicated	2,175,284	0.68	2,163,861	0.74
	Total	2,877,722	0.69	2,906,020	0.74
	Inferred	63,342	1.20	20,476	1.09

¹ Resources include undiscounted reserves. No ore loss or dilution has been included.

² Figures quoted as at 31 December 2006 are as per the 2006 Annual Report and do not include subsequent revisions made by Kazakhmys during 2007.

The decrease in total Kazakhmys copper proven and probable reserves of 19.6 MT during 2007 is significantly less than the draw-down of reserves generated by the annual production of some 34.0 MT of ore and reflects a significant addition to the reserve base during 2007. This addition is almost exclusively due to the incorporation of new reserves in the Zhezkazgan Complex. In the other production regions of Kazakhmys LLC decrease in the reserves base is essentially a reflection of depletion in line with production. In the Zhezkazgan Complex, Kazakhmys LLC has undertaken a detailed re-estimation of resources and reserves linked to the completion during 2007 of the transfer of all reserve estimation plans to electronic format. As part of this process the two most important changes are the inclusion of a significant reserves tonnage in the category of 'reserves recovered from losses', which refers to pillars previously written off as losses, and also as a separate exercise, a more rigorous system of calculating ore grade from drillhole intersections. The principal changes in reserves totals for each of the production regions are summarised below.

ZHEKZAGAN COMPLEX

The total of proven and probable reserves shows an increase of 2.3 MT over the year, during which ore production of 24.4 MT is estimated to have caused a corresponding depletion in reserves.

During 2007 there were important increases in the resources and reserves at some individual underground mines in the Zhezkazgan Complex orefield due to the results of continuing exploration and as in previous years there were exchanges of packages of reserves between adjacent mines. However, the biggest impact is due to the incorporation of 'reserves recovered from losses', which have been identified as part of the re-estimation exercise. The largest change in the resource base at individual mines was at the South mine, where the re-estimation exercise upgraded 9.2 MT of resources from inactive to active status and new additional resources comprised 5.8 MT through the inclusion of new areas and the recovery of pillars plus a further 2.1 MT of resources due largely to transfers from Stepnoy mine, such that after allowance for depletion by production in 2007 at 6.2 MT, the year-on-year change of the resource base at the mine showed an increase of 20.1 MT. The East mine gained 5.1 MT of measured and indicated resources from the inclusion of new areas and the recovery of pillars and after exchanges with adjacent mines, and the re-estimation exercise has restated 1.7 MT of resources to active status and permitted the definition of additional 7.2 MT of inferred resources; after allowance for depletion of resources of 6.7 MT due to production in 2007 the year-on-year change of the resource base at the mine showed an increase of 0.8 MT.

Four of the underground Zhezkazgan mines each report resource and reserve tonnages with very little change over the year (reserves: Annensky -1.1 MT; East +0.6 MT; Stepnoy +0.2 MT; West -0.1 MT). This indicates that the net effect of changes in resource and reserve tonnages has been to incorporate new reserves largely equivalent to depletion at these mines due to production. Exploration of new orebodies continued adjacent to Annensky and East mines, resulting in the incorporation of an additional 1.0 MT of resources at Annensky.

The re-estimation exercise for the underground mines of the Zhezkazgan Complex orefield has included an improved methodology for the estimation of ore grade from drillhole intersections which weights the grade of an area not only by the drillhole intersections but by the cut-off value of 0.4% at the margin of each area. This has resulted in significantly lower grades attributed to areas of in situ resources, and the revised grades can be seen to minimise the previously recognised discrepancy between actual grades experienced in production and the anomalously high values attributed to resources. The lowering of the ore grades in reported reserves is most significant in the three mines:

- at the East mine the revised grade of 0.66% copper for the reported reserves, as opposed to 0.91% copper in 2006, gives rise to a fall of 26.7% contained copper in reserves over the year although reserves tonnage increases by 1%;
- at the Stepnoy mine the revised grade of 0.63% copper, as opposed to 0.76% copper in 2006, gives rise to a fall of 17% contained copper in reserves although tonnage remains unchanged;
- at the South mine the revised grade of 0.62% copper, as opposed to 0.69% copper is reflected in a rise of 16% contained copper, while the reported reserves tonnage increased 29%.

In contrast, no significant change in reported ore grade occurred at the Annensky and West mines.

In the Zhilandy area the resources and reserves for the various underground prospects and the East Sary-Oba mine development have been reviewed and in particular the resource category for tonnage designated a C₂ balance reserve. It has been considered most appropriate that these should be considered inferred resources under JORC criteria. This has given rise to a corresponding decrease of 13.6 MT in estimated proven and probable reserves for this group as compared to figures quoted for the previous exercise as at 31 December 2006.

For the North mine operations, Kazakhmys LLC's re-estimation exercise increased the resource base in already known areas by 2.4 MT, including a small amount of previously non-inventory inferred resources; overall this exercise defined an increased copper grade across the deposits. Exploration during 2007 has permitted the definition of an additional 1.8 MT of resources, such that after allowance for depletion of 2.4 MT due to production in 2007, the year-on-year change in the resource base of this mining unit showed an increase of 1.8 MT. With respect to reserves the relatively larger year-on-year increase of 3.1 MT, reflects that resources have been converted to reserves for small open pits in the Zhezkazgan area which previously had been reported in the total for Akchi Spassky Pit. As in previous estimates, of the very large total of indicated resources for Akchi Spassky Pit, planned for extraction over a long time interval extending beyond 2015, only 50% of the total has been converted to probable reserves, reflecting the level of definition of long term planning for this pit.

Mining reserves and resources continued

BALKHASH COMPLEX

The total of measured and indicated resources for this Complex shows a decrease of 2.3 MT, which is closely correlated to depletion due to production. However, the total of proven and probable reserves indicates a decrease over the same period of 17.0 MT. This is due to a more rigorous application of criteria for conversion of resources to reserves at the Shatyrkul and Sayak mines. In common with what is now standard practice, the mine units present an annual memoir of detailed plans and estimates of resource depletion only for those resources scheduled for extraction in the new annual plan. A consequence is that there is apparent modification or lack of plans for those resources which are least well defined and more distant from current operations, corresponding to the C₂ balance reserves under the national system. Review of proposed production plans for both the Shatyrkul and Sayak operations indicates that it is correct that C₂ balance reserves remain allocated to indicated resources, but that lack of definition of commercial production strategy for such resources dictates that they should be excluded from the probable reserves category.

In the process of detailed development planning, no changes to resource and reserves categories for the major Aktogay and Boschekul projects have been formulated with the state authorities. No changes in resources and reserves totals for these projects have been introduced.

EAST REGION

During 2007, the Akbastau mine was re-assigned to the Karaganda Region.

After allowing for the removal of the Akbastau resources and reserves, the overall decrease in measured and indicated resources is 4.0 MT with respect to the restated resource totals as at 31 December 2006. At Nikolayevsky there has been a re-estimation of reserves resulting in an increased assessment of grade and contained metal and an adjustment of the reserves base attributed as at the beginning of 2007. The re-stated year-on-year decrease of 4.0 MT closely reflects depletion due to production during 2007. A corresponding re-statement of proven and probable reserves is reflected in the year-on-year decrease of 2.5 MT; this is disproportionately less than the decrease in resources and reflects developments at Artemyevsky and Nikolayevsky mines. At Artemyevsky the current reserve estimate indicates that the reserves total at 31 December 2006 was understated in respect of C₂ balance reserves which had not been converted to JORC compliant probable reserves but which, during 2007, had been incorporated in mine development plans and extraction. Depletion of reserves due to production in 2007 was 4.2 MT, which when compared with the year-on-year decrease of 2.5 MT indicates that the reserves base of the East Region mines in 2007 experienced an increment of 1.6 MT, primarily due to re-evaluation of currently accessed resource areas, in conjunction with some minor reductions experienced at Belousovsky and Irtyshsky mines as a result of on-going exploration.

KARAGANDA REGION

With respect to the change in quoted reserves between the end of 2006 and end of 2007, the overall increase in proven and probable reserves of 9.6 MT is entirely due to the inclusion of the Akbastau project. At the Kosmurun and Nurkazgan mines, the decrease in total reserves closely reflects depletion due to production in 2007. At the Abyz mine stripping works were only performed in 2007, with the exception of the extraction of a bulk sample for metallurgical testwork.

The decrease in proven and probable coal reserves approximates the depletion due to extraction in the 12 month period.

KAZAKHMYS GOLD – RESERVES AND RESOURCES ESTIMATION METHODS

Following international convention, the Kazakhmys Gold resources reported in this document are in situ estimates, while the reserves make due allowance for mining recovery and dilution, based on actual operational experience. Resources are inclusive of reserves. The proved reserves and measured resources (at Mizek) are based on JORC definitions and not restricted to ore that has been exposed or is in the process of development within a three-year plan, as is the case in the other Kazakhmys reserves reported in this document.

BOZYMCHAK

The Bozymchak indicated and inferred resources are based on two estimates: a C₁ and C₂ sectional estimate of the central deposit made in November 2007 using a 0.6% copper equivalent cut-off grade; and an earlier datamine estimate made in December 2006, that used separate gold and copper cut-off grades and included the smaller West, East and Davan deposits that are peripheral to the Central Deposit.

MIZEK

The Mizek reserves and resources are divided into three ore types: oxide, transition and sulphide, which are estimated at different gold equivalent cut-off grades (oxide 0.5 g/t, transition 2.0 g/t and sulphide 3.0 g/t). The reserves and resources are based on two historic datamine estimates, with due allowance being made for subsequent mining production up to the end of 2007. The first estimate (January 2007) only recognised oxide and primary (sulphide) ore types while the second (April 2007) was an optimised open pit estimate that recognised oxide, semi-oxide and primary (sulphide) ore types.

AKJILGA

The Akjilga inferred resources are based on C₂ resources reported by the Tajikgeology State Agency in 1994. They have been slightly reduced since the state agency's estimate assumed greater ore body persistence in depth than would be prudent to assume for inferred resources.

MUKUR

The Mukur reserves and resources are based on a FSU sectional estimate made in 2003, which recognised C₁ and C₂ categories and used a 0.5 g/t gold cut-off grade. Due allowance has been made for subsequent mining production up to the end of 2007.

ZHAIMA

The Zhaima reserves and resources are based on a FSU sectional estimate made in January 2007, which recognised C₁ and C₂ categories and used a 0.5 g/t gold cut-off grade. Due allowance has been made for subsequent mining production up to the end of 2007.

KAZAKHMYNS GOLD – METAL RESERVES

Kazakhmys Gold		Reserves ¹ kt	Gold g/t	Silver g/t	Copper %	Gold equivalent ² Moz
Mizek LOM 4 years	Proved	2,252	1.56	3.68	0.15	0.13
	Probable	615	1.56	3.68	0.15	0.04
	Total	2,867	1.56	3.68	0.15	0.17
Mukur LOM 3 years	Proved	–	–	–	–	–
	Probable	2,178	1.43	–	–	0.10
	Total	2,178	1.43	–	–	0.10
Zhaima LOM 1 year	Proved	–	–	–	–	–
	Probable	105	2.28	–	–	0.01
	Total	105	2.28	–	–	0.01
Total Kazakhmys Gold						
	Proved	2,252	1.56	3.68	0.15	0.13
	Probable	2,898	1.49	0.78	0.03	0.15
	Total	5,150	1.52	2.05	0.08	0.28

¹ Includes discounts for ore loss and dilution. Reserves = Resources - Ore Loss + Dilution.

² Gold equivalent ounces have been calculated based on the following prices: copper \$2,756 per tonne, gold \$561 per ounce and silver \$10.20 per ounce.

KAZAKHMYNS GOLD – METAL RESOURCES

Kazakhmys Gold		Resources ¹ kt	Gold g/t	Silver g/t	Copper %	Gold equivalent ² Moz
Akjilga	Measured	–	–	–	–	–
	Indicated	–	–	–	–	–
	Total	–	–	–	–	–
	Inferred	84	–	2,190.44	0.82	0.11
Bozymchak	Measured	–	–	–	–	–
	Indicated	13,625	1.62	7.73	0.87	1.35
	Total	13,625	1.62	7.73	0.87	1.35
	Inferred	10,656	1.60	9.10	0.78	1.01
Mizek	Measured	3,114	2.77	5.09	0.80	0.41
	Indicated	4,066	2.77	5.09	0.80	0.53
	Total	7,180	2.77	5.09	0.80	0.94
	Inferred	1,641	2.77	5.09	0.80	0.22
Mukur	Measured	–	–	–	–	–
	Indicated	–	–	–	–	–
	Total	–	–	–	–	–
	Inferred	243	1.74	–	–	0.01
Zhaima	Measured	–	–	–	–	–
	Indicated	–	–	–	–	–
	Total	–	–	–	–	–
	Inferred	525	1.76	–	–	0.03
Total Kazakhmys Gold						
	Measured	3,114	2.77	5.09	0.80	0.41
	Indicated	17,691	1.88	7.12	0.85	1.88
	Total	20,805	2.02	6.82	0.85	2.30
	Inferred	13,149	1.74	22.00	0.74	1.38

¹ Resources include undiscounted reserves. No ore loss or dilution has been included.

² Gold equivalent ounces have been calculated based on the following prices: copper \$2,756 per tonne, gold \$561 per ounce and silver \$10.20 per ounce.

IMC Group Consulting Limited

REVISION OF RESERVES AND RESOURCES STATEMENT TO 31 DECEMBER 2007

IMC Group Consulting Ltd (IMC) has undertaken a review of the reserves and resources estimates prepared by Kazakhmys PLC (the 'Company'), as the basis for the preparation of a Statement of Reserves and Resources as at 31 December 2007.

Following the acquisition of the Kazakhmys Gold assets (formerly known as Eurasia Gold) by the Company during 2007, IMC have included statements of reserves and resources and technical descriptions in this report. In the interests of clarity these recently acquired assets have been referred to as the Kazakhmys Gold assets. The mines and other facilities that constituted Kazakhmys LLC prior to this acquisition by the Company have been referred to as the Kazakhmys Copper assets.

The Statement of Reserves and Resources is restated in accordance with the criteria of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves' (2004), published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and collaborating institutions (the 'JORC Code').

IMC is satisfied, from the review undertaken, that the recently revised estimates of reserves and resources prepared by the Company is in accordance with the reserve classification system required by law in the Republic of Kazakhstan and that, correspondingly, the estimates have a consistent basis for expressing the degree of confidence for stating quantities of exploitable ore at specific grades of metal content. On the basis of the estimates supplied by the Company, IMC has applied the same criteria as expressed in the Competent Person's Report at the time of Listing for preparation of the restatement of reserves and resources as at 31 December 2007, in accordance with the reporting criteria of the JORC code.

In the previous Statement of Resources and Reserves prepared by IMC as at 31 December 2006, for the mature copper mining operations, the potential ambiguity in earlier statements for the distinction of the categories of measured and indicated resources (and correspondingly proven and probable reserves) was reviewed. For that statement the policy was introduced that the category of measured resource will be restricted to that ore which has been exposed or is in the process of development within the rolling three-year forward operations plan as formally reported to the State Reserves Committee. This policy has again been adopted for the present statement for Kazakhmys Copper operations as at 31 December 2007.

JOHN S WARWICK

BSC (HONS) FIMMM, C ENG, EUR ING
DIRECTOR, IMC GROUP CONSULTING LTD
22 February 2008

IMC GROUP CONSULTING LIMITED

Innovate Office Building
Lake View Drive
Sherwood Park
Nottingham NG15 0DT
United Kingdom

Shareholder Information

ANNUAL GENERAL MEETING

The AGM will be held at 12.15 pm on Wednesday 30 April 2008 at Claridge's (the Ballroom entrance), Brook Street, Mayfair, London W1K 4HR, United Kingdom. The Notice of Meeting and the Form of Proxy are enclosed with this Annual Report and Accounts.

WEBSITE

A wide range of information on Kazakhmys is available at www.kazakhmys.com including details of activities, future events, press releases and Annual and Interim Reports.

REGISTRAR

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 7NH
United Kingdom
Tel: +44 (0)870 707 1100
Fax: +44 (0)870 703 6101
Email: web.queries@computershare.co.uk
www.computershare.com

KAZAKHSTAN SHAREHOLDER ENQUIRIES

Any queries from Kazakhstan shareholders may be addressed to:

Vadim Kudrya
Kazakhmys Services Limited
Almaty Branch Office
69-A, Samal 2
Almaty 050059
Republic of Kazakhstan
Tel: +7 727 2663317

CURRENCY OPTION AND DIVIDEND MANDATE

If you wish to receive your dividend in UK pounds sterling, you should contact the Company's registrars, Computershare Investor Services PLC, to request a Currency Election Form.

Computershare can also arrange for your dividend to be paid directly into your UK bank account. To take advantage of this facility, you should contact Computershare to request a Dividend Mandate Form. This arrangement is only available in respect of dividends paid in UK pounds sterling.

INTERIM REPORT

Recent changes to the Listing Rules of the Financial Services Authority have removed the requirements to issue a hard copy interim (half yearly) report to shareholders. The Directors propose to take advantage of this change and to cease issuing printed interim reports to shareholders forthwith. The interim results will still be issued in the form of a press release and will continue to be available on the Company's website.

COMPANY SECRETARY

Robert Welch
Tel: +44 (0)20 7901 7800
(email: robert.welch@kazakhmys.com)

REGISTERED OFFICE

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100 Victoria Street
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Tel: +44 (0)20 7901 7800
Registered number: 5180783

CORPORATE BROKER

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

SHAREHOLDER INTERESTS AT 31 DECEMBER 2007

Number of shareholders: 2,316

Number of shares in issue: 460,123,288

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	1,065	45.98	0.11
1,001 to 5,000	536	23.14	0.27
5,001 to 10,000	156	6.74	0.24
10,001 to 100,000	339	14.64	2.61
Over 100,000	220	9.50	96.77

Total	2,316	100.0	100.0
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By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	457	19.73	0.54
Banks/nominees	1,808	78.06	95.72
Pension funds	3	0.13	0.16
Investment/unit trusts	2	0.09	0.01
Insurance companies	2	0.09	0.01
Corporate holders	44	1.90	3.56

Total	2,316	100.0	100.0
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MEMORANDUM AND ARTICLES OF ASSOCIATION

The following description summarises certain provisions of the Company's memorandum of association and of its articles of association and applicable English law concerning companies (the Companies Acts 1985 and 2006). This summary is qualified in its entirety by reference to the Company's articles of association and the Companies Acts.

Two resolutions will be put to the Annual General Meeting on 30 April 2008 to amend the articles of association primarily to take account of changes in English company law brought about by the Companies Act 2006 and to increase the Group's borrowing limit. If adopted, the changes will be reflected in the summary of the articles of association which will appear in the 2008 Annual Report and Accounts.

Shareholder Information continued

RIGHTS ATTACHING TO SHARES

The rights attaching to the ordinary shares of the Company are defined in the Company's articles of association. The articles of association may be changed with the agreement of shareholders. A shareholder whose name appears on the register can choose whether his shares are evidenced by share certificates or held in electronic form in CREST (the electronic settlement system in the UK).

GENERAL MEETINGS AND VOTING RIGHTS

At least 21 clear days' written notice of an annual general meeting is required. All other extraordinary general meetings shall be convened by not less than 14 clear days' notice in writing, unless a special resolution or a resolution on which special notice has been given to the Company is proposed, in which case 21 clear days' written notice is required. An Annual General Meeting may be held on shorter notice provided that all the shareholders entitled to attend and vote at the meeting agree. All other general meetings may be held on shorter notice provided a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right agree.

Members may attend any general meeting of the Company. On a show of hands every member (or his representative) who is present in person or by proxy has one vote on each resolution and on a poll every member (or his representative) who is present in person or by proxy shall have one vote on each resolution for each share of which he is the holder.

At any general meeting a resolution put to a vote of the meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is duly demanded. Subject to the provisions of Companies Acts, a poll may be demanded by the chairman of the meeting or by at least five members present in person or by proxy and entitled to vote at the meeting or a member or members present in person or by proxy representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting or a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right. As a result of changes introduced by the Companies Act 2006 to allow multiple proxies appointed by a single member to vote on a show of the hands, resulting in the potential for a vote on a show of hands to be unrepresentative of the wishes of the meeting of the Company, all substantive resolutions at general meetings will be put to a poll vote.

Any form of proxy sent by the Company to shareholders in relation to any general meeting must be received whether in written form or electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

DIVIDEND RIGHTS

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Board can declare and pay interim dividends. The Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) of the amounts and on the dates and for the periods it decides provided the distributable profits of the Company justify such payment. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividend as well as on shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears.

If a dividend has not been claimed for 12 years after the date such dividend became due for payment, it may be invested or otherwise made use of by the Board for the benefit of the Company.

TRANSFERS OF SHARES

The Board may refuse to register a transfer of a certificated share which is not fully paid (or renunciation of a renounceable letter of allotment), provided that refusal does not prevent dealings in shares in the Company from taking place on an open and on a proper basis. The Board may also refuse to register a transfer unless (i) it is in respect of only one class of shares, (ii) it is in favour of a single transferee or not more than four joint transferees, (iii) the instrument of transfer is lodged, duly stamped (if so required) and delivered for registration to the office or such other place as the Board may determine accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing to make the transfer.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Board may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register to shareholders. The Board cannot suspend the registration of transfers of any uncertificated shares without gaining consent from CREST.

EMPLOYEE BENEFIT TRUST

In order to hedge its obligations under the Kazakhmys Long Term Incentive Plan 2007 and the Kazakhmys Deferred Share Bonus Plan 2007, the Company intends to fund an employee benefit trust to acquire shares in the Company. Shares used to satisfy the obligations under both plans will be purchased on the open market thereby avoiding any dilution of shareholders. Where shares are held by the employee benefit trust, the trustee will abstain from voting.

LIQUIDATION RIGHTS

In the event the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie all or any part of the assets of the Company and he can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may also vest the whole or any part of the assets in trustees on such trusts for the benefit of the members, but no member shall be compelled to accept any assets on which there is a liability.

VARIATION OF RIGHTS

If at any time the share capital of the Company is divided into shares of different classes, the rights attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or upon the adoption of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class.

At every such separate meeting, all of the provisions of the articles of association relating to the proceedings of general meetings shall apply. The Board may convene a meeting of the holders of any class of shares whenever it thinks fit and whether or not the business to be transacted involves a variation or abrogation of class rights. The quorum at every such meeting shall be not less than two persons holding or representing by proxy at least one third of the nominal amount paid up on the issued shares of the class. Every holder of shares of the class, present in person or by proxy, may demand a poll. Each such holder shall on a poll be entitled to one vote for every share of the class held by him. If at any adjourned meeting of such holders such quorum as aforesaid is not present, not less than one person holding shares of the class who is present in person or by proxy shall be a quorum.

The rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking equally with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Company's articles of association.

PRE-EMPTIVE RIGHTS AND NEW ISSUES OF SHARES

Under the Companies Acts, the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in the articles of association or given by its shareholders in general meeting, but which in either event, cannot last for more than five years. Under the Companies Acts, the Company may also not allot shares for cash (otherwise pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

The Directors propose in Resolution 10 set out in the Notice of Meeting to renew the authority granted to them at the Annual General Meeting held in 2007 to allot equity securities up to an aggregate nominal amount of £30,330,285 (representing approximately one third of the ordinary shares issued as at 4 March 2008). This authority will expire at the conclusion of the Company's Annual General Meeting in 2009. The limited power granted to the Directors at last year's Annual General Meeting to allot equity shares for cash other than pro rata to existing shareholders expires no later than 8 August 2008. Subject to the terms of the section 80 authority, the Directors recommend that this authority should be renewed. Resolution 11 set out in the Notice of Meeting will be proposed as a Special Resolution to give the Directors the ability (until the conclusion of the Company's Annual General Meeting in 2009) to issue ordinary shares for cash, other than pro rata to existing shareholders, in connection with a rights issue or up to an aggregate nominal value of £4,549,542 which (in accordance with institutional investor guidelines) represents approximately 5% of the issued ordinary share capital of the Company as at 4 March 2008.

PURCHASE OF OWN SHARES

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital.

Resolution 12 set out in the Notice of Meeting will be proposed as a Special Resolution to renew the Directors limited authority last granted in 2007 to make market purchases of the Company's shares. The authority sets the minimum and maximum prices

which may be paid and it will be limited to a maximum of 45,495,428 ordinary shares having an aggregate nominal value of £9,099,086 which represents approximately 10% of the issued ordinary share capital of the Company as at 4 March 2008.

Shares will only be purchased if the Directors consider such purchases to be in the best interests of shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Group. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury). The Company does not hold any shares as treasury shares nor does it have any warrants in issue in relation to its shares.

Following the authority granted by shareholders at the 2007 Annual General Meeting, the Company has made market purchases of 15,079,577 shares at a total cost of £192,298,972 (\$390.1 million) including expenses. All these shares were cancelled and the number of shares in issue accordingly reduced.

DIRECTORS

The Company's articles of association provide for a Board of Directors, consisting (unless otherwise determined by ordinary resolution of shareholders) of not fewer than two Directors and not more than 10 Directors, who shall manage the business of the Company and may exercise all of the powers of the Company, whether relating to the management of the business or not. Directors may be elected by the members in general meeting or appointed by the Board of Directors. Each Director must retire at the Annual General Meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. The members may by ordinary resolution remove a Director before the expiration of his period of office.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

The following significant agreement contains certain termination and other rights for the counterparties upon a change of control of the Company. The terms of a \$2.1 billion pre-export finance facility (the 'Facility') dated 29 February 2008 between the Company and the financial institutions named in the Facility provide that if any person (excluding Vladimir Kim or Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the Facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the Facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the Facility. If no alternative basis has been agreed during such period then the lenders may cancel the commitments of the lenders to lend the Facility and declare all outstanding amounts due and payable.

FINANCIAL CALENDAR

Dividend payments	
Ex-dividend date	2 April 2008
Record date	4 April 2008
Final dividend payable	8 May 2008
Interim dividend payable	October 2008
Other dates	
Annual General Meeting	30 April 2008
Interim results announced	August 2008

Glossary

bcm:t Bank cubic metres excavated to recover one metric tonne of coal	GDP Gross Domestic Product
Board or Board of Directors The Board of Directors of the Company	Government The Government of the Republic of Kazakhstan
Capital Employed The aggregate of equity attributable to shareholders, minority interests and borrowings	the Group Kazakhmys PLC and its subsidiary companies
Cash cost of copper after by-products The US cents cash cost of copper per pound after revenues arising from by-products	GHSE Committee Group Health, Safety and Environment Committee
Combined Code The Combined Code on Corporate Governance issued by the Financial Reporting Council	GWh Gigawatt hour
Committee or Committees All or any of the Audit, Group Health, Safety and Environment, Nomination or Remuneration Committees depending on the context in which the reference is used	IAS International Accounting Standards
Company or Kazakhmys Kazakhmys PLC	IASB International Accounting Standards Board
Directors The Directors of the Company	IFRIC International Financial Reporting Interpretations Committee
Dollar or \$ United States dollars, the currency of the United States of America	IFRS International Financial Reporting Standards
EBITDA Earnings before interest, tax, depreciation and amortisation	IRR Internal Rate of Return
EPS Earnings per share	ISO 14001 An environmental management systems standard published by the International Standards Organisation
EPS based on Underlying Profit Earnings per share based on Underlying Profit is calculated by dividing Underlying Profit by the weighted average number of ordinary shares of 20 pence each outstanding during the year	JORC Joint Ore Reserves Committee
EPT Excess profits tax	Kazakhmys LLC or Kazakhmys Corporation LLC Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan
EURIBOR European Inter Bank Offer Rate	Kazakhmys Copper A business segment of the Group, which includes the processing and sale of copper and other metals
Free Cash Flow Net cash flows from operating activities less sustaining capital expenditure on tangible and intangible assets	Kazakhmys Gold A business segment of the Group, which includes the activities of the acquired Eurasia Gold Inc.
FTSE 100 Financial Times Stock Exchange top 100 companies	Kazakhmys Petroleum A business segment of the Group, which includes the activities of the acquired Kazakhmys Petroleum LLP (formerly Dostan-Temir LLP)
g/t Grammes per metric tonne	Kazakhmys Power The businesses of the Ekibastuz coal fired power plant and Maikuben West coal mine

Kazakhstan
The Republic of Kazakhstan

kbcm
Thousand bank cubic metres

KGcal
One thousand Gigacalories, units of heat energy

koz
Thousand ounces

Ktpa
Thousand metric tonnes per annum

kt
Thousand metric tonnes

km
Kilometres

km²
Square kilometres

LBMA
London Bullion Market Association

LIBOR
London Inter Bank Offer Rate

Listing or IPO
The listing of the Company's ordinary shares on the London Stock Exchange on 12 October 2005

LME
London Metal Exchange

LOM or life of mine
The remaining life of the mine, in years, calculated by deducting the scheduled production rates (i.e. the rate at which material will be removed from the mine to the current defined reserves)

LSE
London Stock Exchange

MKM
MKM Mansfelder Kupfer und Messing GmbH, the Group's operating subsidiary in the Federal Republic of Germany and a business segment of the Group

Cautionary comment concerning forward-looking statements

This Annual Report includes forward-looking statements with respect to the business, strategy and plans of Kazakhmys and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of Kazakhmys to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Listing Rules and applicable law, Kazakhmys does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report.

Moz
Million ounces

MT
Million metric tonnes

MW
Megawatts

NO_x
Nitrogen oxides

OHSAS 18001
Occupational health and safety assessment series (specifications for occupational health and safety management systems)

Ounce or oz
A troy ounce, which equates to 31.1035 grammes

ROCE
Return on Capital Employed, defined as profit before taxation, finance items and negative goodwill over capital employed (borrowings and total equity, including minority interests)

\$/t or \$/tonne
US dollars per metric tonne

Special items
Those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 5(a) to the financial statements

t
metric tonnes

tenge or KZT
The official currency of the Republic of Kazakhstan

Underlying Profit
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and minority interest effects

USc/lb
US cents per pound

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