KAZAKHMYS PLC

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KAZAKHMYS PLC AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

This preliminary results announcement includes the audited consolidated financial results of the Kazakhmys Group for the year ended 31 December 2008, including the Group's proportionate share of earnings of ENRC PLC (ENRC), in which the Group has a 26% shareholding, on an equity accounted basis.

2008 HIGHLIGHTS

- ***Group EBITDA excluding special items $2,056 million***
  - Consisting of $1,627 million from managed businesses and $429 million from ENRC
- ***Profit for the year $910 million***
  - Consisting of $655 million from managed businesses and $255 million from ENRC
  - EPS based on Underlying Profit of $2.27
- ***Shareholders funds $7,477 million***
  - Net debt of $1,628 million
  - Value of ENRC Holding of $2,165 million at 27 March 2009

$ million (unless otherwise stated)	**Year ended 31 December 2008**	Year ended 31 December 2007
Revenues	**5,151**	5,256
Earnings:		
Group EBITDA excluding special items[1]	**2,056**	2,336
Profit before taxation	**1,086**	2,026
Underlying Profit	**1,112**	1,409
EPS:		
Basic and diluted ($)	**1.85**	3.04
Based on Underlying Profit[2] ($)	**2.27**	3.02
Free Cash Flow[3]	**715**	895
ROCE[4] (%)	**19**	38
Cash cost of copper after by-product credits[5] (USc/lb)	**116**	33

[1] Reconciliation of Group EBITDA excluding special items to operating profit is found in note 4(a)(iii).
[2] Reconciliation of EPS based on Underlying Profit is found in note 8(b).
[3] Net cash flow from operating activities less sustaining capital expenditure on tangible and intangible assets.
[4] Profit from all operations before taxation and finance items, excluding special items, as a percentage of the average of opening and closing capital employed.
[5] Total of Kazakhmys Copper cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathodes sold.

All references to $ refer to US dollars unless otherwise stated.

Matthew Hird, Chief Financial Officer of Kazakhmys PLC, said: "We are delighted to publish our first set of full-year results including our share of earnings from our investment in ENRC, which diversifies our earnings, introducing bulk commodities alongside our managed base metal and power activities. As mentioned at our recent trading update, market conditions in 2009 are likely to be challenging but we are taking decisive action, across the Group, to conserve cash while at the same time preserving the underlying strength and potential of the business."

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FORWARD-LOOKING STATEMENT
Certain statements included in these results contain forward-looking information concerning Kazakhmys' strategy, business, operations, financial performance or condition, outlook, growth opportunities or circumstances in the countries, sectors or markets in which Kazakhmys operates. By their nature, forward-looking statements involve uncertainty because they depend on future circumstances, and relate to events, not all of which are within Kazakhmys' control or can be predicted by Kazakhmys.

Although Kazakhmys believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from those set out in the forward-looking statements.

No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Kazakhmys PLC, or any other entity, and shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Rules of the UK Listing Authority and applicable law, Kazakhmys undertakes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

CHIEF FINANCIAL OFFICER'S REVIEW

Preliminary results announcement
On 5 March 2009, Kazakhmys PLC issued a trading update which covered the production and selected unaudited financial results of the Kazakhmys Group's managed businesses for the year ended 31 December 2008. The trading update excluded the contribution from ENRC PLC (ENRC), in which the Group has a 26% shareholding.

This preliminary results announcement includes the audited consolidated financial results of the Kazakhmys Group for the year ended 31 December 2008, including the Group's proportionate share of ENRC's earnings, on an equity accounting basis.

Revenues
2008 has been a year of contrasts for the Group as strong commodity prices seen across the Group's main products for the first nine months of the year gave way to a sudden collapse in prices in the fourth quarter as the impact of the global economic slowdown spread beyond the financial sector.

Despite the first time contribution from Kazakhmys Power following its acquisition in May 2008, and a full year of revenue from Kazakhmys Gold, revenues for the Group fell by 2% to $5,151 million for the year compared to 2007.

EBITDA
Segmental EBITDA excluding special items fell by 30% to $1,627 million compared to the prior year despite the first time inclusion of Kazakhmys Power and a full year of earnings from Kazakhmys Gold which was acquired in July 2007. Group EBITDA excluding special items fell by 12% to $2,056 million. Included within Group EBITDA excluding special items is the Group's proportionate share of the EBITDA of ENRC of $429 million based on its published results.

Special items
In light of the current economic environment, management have taken a number of operational decisions which have resulted in a series of impairment charges being recognised in the Group accounts. Total special items amounted to $382 million compared to $24 million in 2007.

Taxation
The effective rate of tax for the year was 16.2% compared to a rate of 29.6% in the prior year. The overall tax charge was $176 million, a decrease of $423 million largely attributable to significant one-off taxation credits in respect of the release of deferred tax liabilities due to the impairment of the Kazakhmys Gold business and the enactment of new tax legislation within Kazakhstan that is effective from 1 January 2009. The effective tax rate was also impacted by equity accounting for ENRC.

Excluding the impact of these one-off deferred tax adjustments and the impact of equity accounting, the Group's effective income tax rate for the year on underlying earnings would have been approximately 32%.

Earnings per share
Profit for the year attributable to equity shareholders decreased to $909 million from $1,416 million in 2007, whilst Underlying Profit fell to $1,112 million from $1,409 million. A combination of the lower level of earnings for the year and a net increase in the weighted average number of shares in issue following the share exchange with the Government in July 2008 and completion of the 2007 share buy-back programme in January 2008, resulted in basic earnings per share decreasing by 39% to $1.85. Earnings per share based on Underlying Profit was $2.27 compared to $3.02 for the prior year, a decrease of 25%.

Cash flows
Cash flows from operating activities were $1,099 million for the year, a decrease of $37 million compared to the prior year due to lower earnings, but offset by a marked reduction in tax payments and an improvement in working capital requirements. Despite higher levels of sustaining capital expenditure in 2008, Free Cash Flow, a key performance indicator of the Group's ability to translate earnings into cash flow, was a healthy $715 million. Whilst this is based on the full-year result, Free Cash Flow reduced markedly in the last quarter of 2008 as commodity prices fell sharply.

Balance sheet

Shareholders' funds were $7,477 million as at 31 December 2008, an increase of $1,058 million compared with 2007. This increase is primarily due to the retained profit for the year offset by returns to shareholders and the impact of equity accounting for the Group's interest in ENRC.

The Group's net debt balance stood at $1,628 million as at 31 December 2008 compared to net liquid funds of $298 million at 31 December 2007. Cash and deposits amounted to $572 million as at 31 December 2008, with the gross debt balance being $2,200 million. The Group moved into a net debt position for the first time in 2008 following the draw down during the year of $2.1 billion from the pre-export finance facility for the acquisition of Kazakhmys Power and incremental market share purchases in ENRC.

Excluding the impact of final pricing adjustments on 2008 sales contracts, the Group has been operationally cash positive, including payments for capital expenditure, for the first three months of 2009. On 30 March 2009 the Group signed an agreement with a syndicate of banks to extend $150 million of the unsecured revolving credit facility to 31 March 2010.

The market value of the Group's shareholding in ENRC was $2,165 million as at 27 March 2009 compared to $1,600 million as at 31 December 2008.

FINANCIAL REVIEW

BASIS OF PREPARATION

With the exception of the change in revenue recognition accounting policy (see note 2 below), the financial information presented below has been prepared in accordance with IFRS using consistent accounting policies as those adopted in the financial statements for the year ended 31 December 2007.

INCOME STATEMENT

A summary of the consolidated income statement is shown below:

$ million (unless otherwise stated)	**2008**	2007
Revenues	**5,151**	5,256
Operating costs excluding depreciation, depletion, amortisation and special items	**(3,524)**	(2,920)
Segmental EBITDA excluding special items	**1,627**	2,336
Special items:		
Less: impairment of property, plant and equipment	**(120)**	(26)
Less: impairment of goodwill	**(46)**	-
Less: impairment of mining assets	**(126)**	-
Less: provisions against inventories	**(88)**	-
(Less)/add: (loss)/gain on disposal of property, plant and equipment	**(2)**	2
Less: depreciation, depletion and amortisation	**(349)**	(264)
Operating profit	**896**	2,048
Share of profits from associate	**255**	-
Profit before finance items and taxation	**1,151**	2,048
Net finance expenses	**(65)**	(22)
Profit before tax	**1,086**	2,026
Income tax expense	**(176)**	(599)
Profit for the year	**910**	1,427
Minority interests	**(1)**	(11)
Profit attributable to equity shareholders of the Company	**909**	1,416
EPS – basic and diluted	**$1.85**	$3.04
EPS based on Underlying Profit	**$2.27**	$3.02

Revenues and EBITDA

2008 has been a year of contrast for the Group as strong commodity prices seen across the Group's main products for the first nine months of the year gave way to a sudden collapse in prices in the fourth quarter as the impact of the global economic slowdown spread beyond the financial sector. Average market prices for copper for the first nine months of the year were $7,966 per tonne, significantly higher than in 2007, but fell by more than half to $3,940 per tonne for the last quarter with the LME copper price finishing the year at $2,902 per tonne.

Sales volumes of copper cathodes and copper rods were in line with the prior year at 385 kt reflecting consistent production volumes across the years. Sales volumes were particularly strong in the fourth quarter offsetting the sharp fall in commodity prices to a limited degree. However, revenues from copper cathodes and copper rods fell by $181 million compared to 2007 as a higher proportion of sales took place in the second half of 2008 when copper prices were lower than the first half of 2008. Revenues from zinc metal and zinc concentrate fell by more than half to $149 million compared to 2007 in spite of higher sales levels, reflecting the continued weakness shown in zinc prices which were 43% lower than the prior year.

Despite the first time contribution from Kazakhmys Power following its acquisition in May 2008, and a full year of revenue from Kazakhmys Gold in 2008, revenues for the Group fell by 2% for the year compared to 2007.

Inflationary pressures within Kazakhstan and the impact of global mining industry inflation continued to be significant factors on costs during the year across all of our businesses. Within Kazakhstan, the consumer price index inflation rate was running in excess of 10% per annum for the majority of the year, and mining industry inflation continued at levels significantly above the historic average. An easing of inflation rates was only seen in the fourth quarter of the year as the global economic downturn impacted the domestic Kazakh economy. Consequently, cost pressures were seen in particular for fuel, which was driven by the record price of oil, mining consumables, transportation and employee remuneration. In addition, social spending increased compared to 2007 reflecting the Group's commitment to employees and communities in Kazakhstan in a period of elevated commodity prices. Input costs are expected to reduce in 2009 following the devaluation of the tenge in February 2009, a continued reduction in the consumer price index and mining inflation rates amidst the economic downturn, and several cost control initiatives being implemented across our businesses.

Special items

In light of the current economic environment, management have taken a number of operational decisions which have resulted in a series of impairment charges being recognised in the Group accounts. The significant impairment charges recognised in the consolidated income statement are:

• an impairment charge of $75 million has been recognised following management's decision to cease production at the Kazakhmys Copper zinc refinery in light of adverse changes in assumptions about future zinc prices and operating costs;

• an impairment charge of $158 million has been recognised in relation to the Kazakhmys Gold Division following a general change in its long-term strategy, with the outlook for existing mines and development projects being less attractive than originally anticipated at the time of acquisition;

• impairment of inventories include an amount of $73 million and $15 million in respect of Kazakhmys Copper and MKM, respectively. For Kazakhmys Copper, the impairment primarily relates to the impairment of stockpiled ore which is not going to be processed in the foreseeable future as the processing is uneconomic at current commodity price levels. Within MKM, a provision has been recognised to record inventory at the lower of cost and net realisable value. This primarily relates to finished goods held in stock at the end of the year which have been written down reflecting the fall in copper price in December; and

• an impairment charge of $57 million has also been recognised within Kazakhmys Copper on the property, plant and equipment and mining assets associated with the closure of certain mines which are loss making in a period of sustained commodity price weakness and are unlikely, in management's best estimate, to re-open in the foreseeable future.

Total special items amounted to $382 million compared to $24 million in 2007.

Equity accounting

Following the share exchange with the Government of Kazakhstan in July 2008 whereby the Group increased its interest in ENRC PLC to 22.2% and further market purchases of shares which increased the Group's interest to 26.0%, the Group equity accounted for its interest in ENRC which is classified as an associate. The share of profits from the associate recognised in the consolidated income statement, net of tax, is $255 million based on the results of ENRC for the year ended 31 December 2008 which were published on 25 March 2009.

Under equity accounting, the $38 million of dividend received from ENRC in November 2008 has not been recognised in the consolidated income statement, but is instead netted off against the investment in associate in the consolidated balance sheet. This treatment differs from December 2007 when the dividend received from ENRC of $94 million was recognised in the consolidated income statement due to the different accounting treatment associated with the Group's lower shareholding in ENRC in 2007 in which the Group's interest was treated as an available for sale investment.

Based on the 2008 final dividend announced by ENRC on 25 March 2009 of 19 US cents per share, the Group should receive $64 million in June 2009.

Reconciliation of Group EBITDA excluding special items

$ million	2008	2007
Segmental EBITDA excluding special items		
Kazakhmys Copper	**1,597**	2,234
MKM	**(1)**	34
Kazakhmys Power	**42**	-
Kazakhmys Gold	**19**	6
Kazakhmys Petroleum	**(1)**	(1)
Corporate unallocated	**(29)**	63
Total segmental EBITDA excluding special items	**1,627**	2,336
Share of EBITDA of associate	**429**	-
Group EBITDA excluding special items	**2,056**	2,336

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. 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 Group.

Segmental EBITDA excluding special items fell by 30% to $1,627 million compared to the prior year despite the first time inclusion of Kazakhmys Power following its acquisition in May 2008, and a full year of earnings from Kazakhmys Gold which was acquired in July 2007. MKM made a loss for the year due to the volatility in earnings under IFRS as a result of the combined impact of copper price fluctuations on the valuation of stock and stock levels. Group EBITDA excluding special items fell by 12% to $2,056 million. Included within Group EBITDA excluding special items is the Group's share of EBITDA of ENRC of $429 million based on its published results.

Net finance items

Net finance costs were $65 million during the year compared to $22 million in 2007. This increase is primarily due to $50 million of interest payments arising from the draw down of the Group's pre-export finance debt facility (PXF) which was signed on 29 February 2008 and used to finance the acquisition of Kazakhmys Power and incremental market share purchases in ENRC. The PXF carries a margin of US$ LIBOR plus 1.25%.

In December 2008, the Group took out a series of six month and 12 month interest rate swaps to hedge against the impact of short-term volatility in US$ LIBOR rates that was seen towards the end of 2008. At 31 December 2008, $1.4 billion of the $2.1 billion drawn down under the PXF was covered by these interest rate swaps and in January 2009, the Group took out a further 12 month interest rate swap thereby bringing the estimated cost of servicing the PXF down to 2.29%, including margin, for 2009.

Falling US$ LIBOR rates during the course of the year, combined with the lower cash balances in the Group compared to 2007 when the Group was in a net liquid funds position, has meant that interest income earned on cash and deposit balances has fallen to $23 million from $94 million in 2007.

The relative stability of the Kazakhstan tenge against the US dollar during 2008 compared to a strengthening of the tenge in 2007, at a time when the Group's US dollar cash balances within Kazakhstan were higher than in 2008, has given rise to a lower net exchange loss of $13 million compared to a net exchange loss of $91 million in 2007.

Taxation

The effective rate of tax for the year was 16.2% compared to a rate of 29.6% in the prior year. The overall tax charge was $176 million, a decrease of $423 million as a result of significant one-off taxation credits in respect of the release of deferred tax liabilities and the lower earnings within the Group for the year. The effective tax rate was also impacted by equity accounting for the associate.

The Group's interest in the earnings of ENRC is included, net of tax, in the consolidated income statement below the Group's operating profit in arriving at profit before taxation, thereby reducing the Group's effective tax rate by 6.7%.

The income tax expense for the year includes a credit of $178 million in respect of deferred income tax which arises due to the impairment of the Kazakhmys Gold business and the enactment of new tax legislation within Kazakhstan in December 2008, that is effective from 1 January 2009, and which leads to a phased reduction in the corporate income tax rate from 30% in 2008 to 15% in 2011. This credit has reduced the effective tax rate by 16.4% and is primarily made up of the following:

- on acquisition of Kazakhmys Gold in July 2007, a deferred tax liability of $46 million was recognised arising from the requirement to provide deferred tax on the acquisition fair value adjustments, with a corresponding entry to goodwill. The goodwill recognised on acquisition and a proportion of the mining assets of the Kazakhmys Gold business have been impaired during the year and this results in a taxation credit in the income statement of $32 million;

- on completion of the acquisition of Kazakhmys Power in May 2008, a deferred tax liability of $267 million was recognised arising from the requirement to provide deferred tax on the acquisition fair value adjustments, with a corresponding entry to goodwill. The deferred tax liability was calculated based on a corporate income tax rate of 30%, the prevailing tax rate at the date of acquisition. Since the rates included within the new Kazakh tax legislation were substantially enacted by 31 December 2008, the deferred tax liability on the fair value adjustments has been recalculated as $141 million resulting in a taxation credit in the income statement of $126 million; and

- the non-acquisition related deferred tax liabilities within the Group’s Kazakh businesses have been recalculated taking into account the lower corporate income tax rates resulting from the new Kazakh tax legislation. This calculation gives rise to a $20 million taxation credit in the income statement.

Excluding the impact of these one-off deferred tax adjustments and the impact of equity accounting, the Group’s effective income tax rate for the year on underlying earnings would have been approximately 32%.

Under the tax regime prevailing for the 2008 financial year, excess profits tax is levied in addition to corporate income tax on the profits attributable to certain subsoil contracts where the internal rate of return exceeds 20%. For 2008, excess profits tax of $28 million was charged to earnings (2007: $37 million), which represented an incremental 2.6% (2007: 1.8%) to the effective tax rate. Under the new tax legislation effective from 1 January 2009, based on the existing production and material flows within the business, excess profits tax is unlikely to be levied.

Withholding taxes of $41 million have been recognised in 2008 in relation to the unremitted earnings of subsidiaries as at 31 December 2008, which are expected to be remitted to the UK in the future through dividend distributions from Kazakhstan as a result of new UK tax legislation in 2009. This is expected to restrict the deductibility of interest on intra-group financing activities. This factor contributed an additional 3.8% to the effective tax rate in 2008. Based on the expected dividend flows in the near future, an additional charge to the income statement is not expected for 2009.

Future tax charges are affected by the mix of profits and tax rates in the various tax jurisdictions in which the Group operates. As stated above, with the enactment of new tax legislation in Kazakhstan in December 2008, which is effective from 1 January 2009, there will be a phased reduction in the corporate income tax rate from 30% in 2008 to 15% in 2011. This reduction in corporate income tax rates will have the effect of significantly lowering the Group’s overall future headline effective tax rate below the current UK statutory corporate income tax rate of 28%.

However, the introduction of a new minerals extraction tax is likely to offset the benefit arising from the lower corporate income tax rates. Management has been working with the Government and other natural resource companies within Kazakhstan on determining the basis and application of this new tax in a period of lower profitability. It is expected that for 2009, the minerals extraction tax will be levied at approximately a similar monetary value as royalties paid during 2008, which amounted to $32 million, or approximately 2.9% of profit before tax. The Government is consulting further with industry representatives to agree an equitable basis for determining the minerals extraction tax in a sustained period of lower commodity prices.

Underlying Profit and earnings per share

Profit for the year attributable to equity shareholders decreased to $909 million from $1,416 million in 2007. Underlying Profit is seen as a more informed measure of the performance of the Group as it removes non-recurring or variable non-trading items from profit attributable for the year, and their resulting tax and minority interest impacts. It therefore provides a more consistent basis for comparing the underlying trading performance of the Group between 2008 and 2007.

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

$ million	**2008**	2007
Profit attributable to equity shareholders of the Company	**909**	1,416
Special items:		
Impairment of property, plant and equipment	**120**	26
Impairment of goodwill	**46**	-
Impairment of mining assets	**126**	-
Provisions against inventories	**88**	-
Loss/(gain) on disposal of property, plant and equipment	**2**	(2)
Release of deferred tax liabilities:		
Group restructuring	**-**	(31)
Impairment of Kazakhmys Gold	**(32)**	-
Change in tax rates on Kazakhmys Power fair value adjustments	**(126)**	-
Change in tax rates on non-acquisition related deferred tax liabilities in Kazakhstan	**(20)**	-
Minority interest effect of non-recurring items	**(1)**	-
Underlying Profit	**1,112**	1,409

A description of the special items and the release of deferred tax liabilities are explained above.

The weighted average number of shares in issue increased from 466.1 million to 490.3 million during the year primarily as a result of the Company issuing 80.3 million shares to the Government of Kazakhstan in July 2008 as part of the share exchange whereby the Company received 98.6 million shares in ENRC. This was partly offset by the completion of the 2007 share buy-back programme in January 2008, whereby 5.2 million shares were purchased and cancelled in January 2008. The impact on earnings per share is shown below.

$ million (unless otherwise stated)	**2008**	2007
Net profit attributable to equity shareholders of the Company	**909**	1,416
Underlying Profit	**1,112**	1,409
Weighted average number of shares in issue (million)	**490.3**	466.1
EPS – basic and diluted ($)	**1.85**	3.04
EPS based on Underlying Profit ($)	**2.27**	3.02

Basic earnings per share decreased by 39% to $1.85. Earnings per share based on Underlying Profit was $2.27 compared to $3.02 for the prior year, a decrease of 25%.

Dividends

The Company paid dividends of 41.4 US cents per share ($200 million) during 2008, which comprises the 2007 final dividend of 27.4 US cents per share ($125 million) and the 2008 interim dividend of 14.0 US cents per share ($75 million). In response to the sharp reduction in commodity prices for the Group's products, continued market uncertainty and the need to meet funding requirements in the near term, the Directors have not recommended a final dividend for 2008. This decision is in keeping with the Group's dividend policy determined at the time of Listing.

Key financial indicators

The Group's key financial indicators are set out below:

	2008	2007
Group EBITDA excluding special items ($ million)	**2,056**	2,336
EPS based on Underlying Profit ($)	**2.27**	3.02
Free Cash Flow ($ million)	**715**	895
Return on Capital Employed[1] (%)	**19**	38
Net cash cost of copper after by-product credits excluding purchased concentrate[1] (USc/lb)	**116**	33

1 During the year the Group amended the definitions of the above financial indicators as the Directors believe that the revised indicators provide a more informed measure of profitability and capital efficiency of the Group.

CASH FLOWS

A summary of cash flows is shown below:

$ million	2008	2007
Segmental EBITDA	**1,245**	2,312
Write-off of assets and impairment losses	**400**	30
Loss/(gain) on disposal of property, plant and equipment	**2**	(2)
Dividends received from associate	**38**	-
Foreign exchange loss adjustment	**(27)**	(58)
Working capital movements	**132**	(282)
Interest paid	**(70)**	(14)
Income taxes paid	**(621)**	(850)
Net cash flows from operating activities	**1,099**	1,136
Sustaining capital expenditure	**(384)**	(241)
Free Cash Flow	**715**	895
Expansionary and new project capital expenditure	**(310)**	(702)
Interest received	**28**	121
Acquisition of subsidiaries, net of liquid funds and borrowings acquired	**(1,157)**	(265)
Capital transactions with shareholders	**(121)**	(282)
Dividends paid	**(200)**	(424)
Acquisition of associate	**(918)**	(806)
Proceeds from disposal of property, plant and equipment	**17**	8
Proceeds from disposal of non-current investments	**14**	3
Other movements	**(5)**	(12)
Cash flow movement in net (debt)/liquid funds	**(1,937)**	(1,464)

Summary of the year

Cash flows from operating activities were $1,099 million for the year, a decrease of $37 million compared to the prior year due to lower earnings, a marked reduction in tax payments and an improvement in working capital requirements. Despite higher levels of sustaining capital expenditure in 2008, Free Cash Flow, a key performance indicator of the Group's ability to translate earnings into cash flow, was a healthy $715 million. Whilst this is based on the full-year result, Free Cash Flow reduced markedly in the last quarter of 2008 as commodity prices fell sharply.

Working capital

Working capital levels for the Group decreased by $132 million during 2008. This improvement was due to a combination of factors, including the beneficial working capital impact of lower copper prices which more than offset higher inventory levels within MKM, and lower sales in the last two months of the year for MKM which reduced the level of trade receivables. For the Kazakhmys Copper business, a reduction in copper cathodes held as stock at the year end following strong sales in December and a reduction in the quantity of purchased concentrate held at year end as previously held purchased concentrate inventory was used in production and not replenished, also contributed to the improvement in working capital levels.

During the current economic downturn, management will continue to focus on working capital management across the Group's businesses to ensure cash generation is maximised.

Income taxes

The level of income taxes paid of $621 million during the year was lower than the prior year of $850 million as a result of lower earnings in 2008, a one-off catch-up tax payment in early 2007 of approximately $100 million in relation to income tax and excess profits tax payable for the 2006 financial year which did not recur in 2008. Based on the schedule of tax payments on account for 2008 that was agreed with the tax authorities during the year, Kazakhmys LLC reported a tax receivable balance of approximately $100 million at the year end given the reduced profitability in the last quarter of the year, which was not expected when agreeing the schedule of tax payments earlier in the year. This overpayment will be used to reduce tax payments on account in 2009 or will be refunded by the tax authorities if Kazakhmys LLC is in a non-tax paying situation.

Despite the lower profitability of the Group during 2008 compared to 2007, the cash tax payments are considerably higher than the tax charge shown in the consolidated income statement. This is primarily due to the significant one-off tax credits in 2008 due to the change in 2009 tax rates, as well as the adverse cash impact arising from the relatively high 2008 tax payments on account compared to the tax charge for the year.

Capital expenditure

During 2008 the Group continued to invest at historically high levels to improve productivity levels and to grow the business, with sustaining capital expenditure $143 million higher than the prior year at $384 million. Purchase prices of items of capital expenditure also rose compared to the prior year reflecting the demand for such equipment and the impact of global mining industry inflation. Despite this increase, in response to market conditions, the level of discretionary capital expenditure was reduced towards the end of the year amidst the backdrop of the economic downturn and this reduction will continue into 2009.

Excluding the impact in 2007 of acquiring the oil and gas exploration licence within Kazakhmys Petroleum for $450 million, expansionary and new project capital expenditure for 2008 was $58 million higher than the prior year at $310 million. Significant items of capital expenditure during the year included the continued construction of the West Nurkazgan underground mine, expenditure on the Balkhash acid plant which opened in June 2008, expenditure on pre-feasibility studies for Aktogay and Boschekul, overhaul and modernisation of Unit 6 within the Ekibastuz power plant which was put back into operation in November 2008 and continued exploration work within Kazakhmys Petroleum.

Acquisitions

As explained below, the Group acquired the Ekibastuz coal-fired power plant and Maikuben West coal mine during the year. Cash paid on completion of the transaction was $1,097 million with further deferred amounts of $5 million paid in 2008, less an amount of $9 million received from the seller in relation to adjustments to the closing statement under the terms of the sale and purchase agreement. Net debt of $57 million was acquired with the businesses, which together with acquisition costs of $7 million, resulted in a net cash outflow for this acquisition during 2008 of $1,157 million. Following the early completion of the AES management contract in 2009, additional amounts of $80 million and $102 million are payable to AES under the earnout in April 2009 and January 2010, respectively.

Additionally, during the year, as explained below, the Group increased its shareholding in ENRC from 14.6% at 31 December 2007 to 26.0% in three separate tranches at a total cash cost of $918 million. The share exchange with the Government of Kazakhstan in July 2008 was a non-cash transaction. The Group received $38 million of dividends from ENRC in November 2008, compared with $94 million in December 2007 when the investment was classified as an available for sale investment and the dividend receipt was included within segmental EBITDA.

The acquisition of Kazakhmys Power and incremental shares in ENRC were funded via the draw down of $2.1 billion from the pre-export finance debt facility.

Returns to shareholders

Returns to shareholders comprised payment of the 2007 final dividend of $125 million in May 2008, payment of the 2008 interim dividend of $75 million in October 2008 and completion of the share buy-back programme in January 2008, as explained below, at a cost of $121 million during the year.

BALANCE SHEET

Summary of movements

Shareholders' funds were $7,477 million as at 31 December 2008, an increase of $1,058 million compared with 2007. This increase is primarily due to the retained profit for the year offsetting returns to shareholders and the impact of equity accounting for the Group's interest in ENRC.

Capital employed

A summary of capital employed is shown below:

$ million (unless otherwise stated)	2008	2007
Equity shareholders' funds	**7,477**	6,419
Minority interests	**20**	14
Borrowings	**2,200**	198
Capital employed	**9,697**	6,631
Profit before finance items and taxation excluding special items	**1,533**	2,072
ROCE[1] (%)	**19**	38

1 During the year the Group has amended the definition of ROCE as the Directors believe that the revised indicator provides a more informed measure of the capital efficiency of the Group.

Return on capital employed decreased to 19% from 38% in 2007 due to the acquisition of the Power business which is carried in the accounts at $1,446 million at 31 December 2008 and which reported a post-acquisition profit before finance items and taxation of $5 million, and the impact of equity accounting whereby the Group's investment in the associate is recorded in the consolidated balance sheet at $4,045 million at 31 December 2008 with equity accounted earnings in the consolidated income statement in relation to this investment of $255 million.

Acquisition of ENRC shares

During the year, the Group increased its shareholding in ENRC from 14.6% at 31 December 2007 to 26.0% in three separate tranches:

• on 24 July 2008, the Company issued 80.3 million shares to the Government of Kazakhstan in exchange for 98.6 million shares in ENRC, which it received on 28 July 2008. The share price of the Company as at the date of the share issue was £13.17 per share, and the market value of the shares issued was $2,110 million. In addition, stamp duty of $10 million was incurred, taking the total cost of the transaction to $2,120 million;

• between 31 July and 8 August 2008, the Group purchased a further 35.7 million shares in ENRC for a total cost of $800 million; and

• between 2 October and 27 October 2008, the Group purchased a further 12.6 million shares in ENRC for a total cost of $108 million.

After the completion of these transactions, the total number of shares held by the Group in ENRC at 31 December 2008 was 334.8 million. The total cash cost of these transactions was $918 million as the share exchange was a non-cash transaction.

Acquisition of Kazakhmys Power

On 29 May 2008 the Group acquired 100% of the Ekibastuz coal-fired power plant and the Maikuben West coal mine in Kazakhstan for a total consideration of $1,264 million, including deferred consideration and acquisition costs of $176 million on a discounted basis. As a direct result of this acquisition, property, plant and equipment and mining assets have increased by over $1 billion, and provisions have increased by $216 million mainly attributable to the deferred consideration payable in future years. Goodwill of $594 million has arisen from the acquisition of the businesses. This goodwill can be broken down into two elements:

• goodwill of $327 million representing the difference between the cost of the acquisition and the fair value of identifiable assets and liabilities acquired, excluding deferred tax on the fair value adjustments. This goodwill has arisen as the fair values of the identifiable assets do not take into account the future capital expenditure programme of the businesses which should result in an increased capacity of the power plant from 2,250 MW to 4,000 MW. A combination of the future capacity increase, additional tariff increases and the ability for the Group to benefit from these improvements are the main drivers behind the goodwill balance arising on this transaction; and

• goodwill of $267 million arising as a consequence of the requirement to recognise a deferred tax liability on the fair value adjustments.

Management have performed an impairment test on the acquisition goodwill at 31 December 2008, and the results of this exercise show that the goodwill is not impaired.

Net debt/liquid funds
Net debt/liquid funds consists of cash and cash equivalents, current investments and borrowings. A summary of the net debt/liquid funds position at 31 December 2008 and 2007 is shown below:

$ million	**2008**	2007
Current investments	**32**	57
Cash and cash equivalents	**540**	439
Borrowings	**(2,200)**	(198)
Net (debt)/liquid funds	**(1,628)**	298

The Group's net debt, net of capitalised arrangement fees of $21 million, stood at $1,628 million at 31 December 2008 compared to net liquid funds of $298 million at 31 December 2007. The Group moved into a net debt position for the first time in 2008 following the draw down during the year of $2.1 billion from the pre-export finance debt facility to finance the acquisition of Kazakhmys Power and incremental market share purchases in ENRC. Borrowings within MKM reduced from $196 million to $121 million reflecting the lower working capital requirements resulting from the reduction in copper prices and reduced sales volumes in the last two months of the year. The external debt acquired within Kazakhmys Power of $159 million on acquisition was substantially refinanced in June 2008 to take advantage of the cheaper cost of borrowing outside of Kazakhstan.

On 26 August 2008, a revolving credit facility was arranged for general corporate purposes and to provide standby liquidity. At 31 December 2008, this facility was undrawn, and on 30 March 2009, $150 million of the facility was extended for a further six months to 31 March 2010.

In order to manage counterparty and liquidity risk, surplus funds within the Group are held predominantly in the UK and funds remaining in Kazakhstan are utilised mainly for working capital purposes. The funds within the UK are held within western European and US financial institutions and their triple 'A' rated managed liquidity funds. At 31 December 2008, $282 million of cash and cash equivalents was held in the UK and the Netherlands, with $258 million being held in Kazakhstan.

The Group's liquidity requirements are met by ensuring adequate working capital is available within Kazakhstan, surplus funds are repatriated to the UK on a timely basis and accessing the revolving credit facility if required.

Deferred tax
As explained in note 7 to the financial information, the Group's deferred tax liability decreased to $266 million due to the impairment of the Kazakhmys Gold business and the enactment of new tax legislation within Kazakhstan in December 2008. This reduction in tax rates results in the Kazakhmys Power and Kazakhmys Gold acquisition related deferred tax liabilities, and the non-acquisition related deferred tax liabilities predominantly within Kazakhmys Copper, decreasing by $178 million with a corresponding credit recognised in the income statement.

Share buy-back
At the end of January 2008, the Group completed the share buy-back programme which commenced on 24 October 2007. The total number of ordinary shares purchased and cancelled was 15.1 million, of which 5.2 million were cancelled in 2008. At an average price of £12.73 per share, this equated to a total cost of $391 million including expenses, of which $121 million was incurred in 2008. The average closing price and the volume weighted average price over the buy-back period were £13.21 per share and £13.08 per share, respectively.

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2008

$ million (unless otherwise stated)	Notes	2008	2007
Revenues	4	**5,151**	5,256
Cost of sales		**(3,397)**	(2,832)
Gross profit		**1,754**	2,424
Selling and distribution expenses		**(152)**	(81)
Administrative expenses		**(462)**	(360)
Other operating income		**205**	136
Other operating expenses		**(49)**	(41)
Impairment losses	5	**(400)**	(30)
Operating profit		**896**	2,048
Share of profits from associate	11	**255**	-
Profit before finance items and taxation		**1,151**	2,048
Analysed as:			
Profit before finance items and taxation before special items		**1,533**	2,072
Special items		**(382)**	(24)
Finance income	6	**138**	260
Finance costs	6	**(203)**	(282)
Profit before taxation		**1,086**	2,026
Income tax expense	7	**(176)**	(599)
Profit for the year		**910**	1,427
Attributable to:			
Equity shareholders of the Company		**909**	1,416
Minority interests		**1**	11
		910	1,427
Earnings per share attributable to equity shareholders of the Company			
Basic and diluted ($)	8(a)	**1.85**	3.04
EPS based on Underlying Profit ($)	8(b)	**2.27**	3.02
Dividends			
Dividends per share (US cents)	9	**41.4**	89.3
Total amount of dividends	9	**200**	419

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

$ million	Notes	**2008**	2007
Assets			
Non-current assets			
Intangible assets		**1,126**	568
Tangible assets		**3,601**	2,517
Property, plant and equipment		**3,326**	2,129
Mining assets		**275**	388
Available for sale investments	10	**-**	2,401
Investment in associate	11	**4,045**	-
Other non-current investments		**5**	12
		8,777	5,498
Current assets			
Inventories		**734**	815
Prepayments and other current assets		**238**	212
Income taxes reclaimable		**126**	-
Trade and other receivables		**233**	333
Investments		**32**	57
Cash and cash equivalents		**540**	439
		1,903	1,856
TOTAL ASSETS		**10,680**	7,354
Equity and liabilities			
Share capital	12(a)	**200**	170
Share premium		**2,648**	570
Capital reserves	12(b)	**449**	2,088
Retained earnings		**4,180**	3,591
Equity attributable to shareholders of the Company		**7,477**	6,419
Minority interests		**20**	14
Total equity		**7,497**	6,433
Non-current liabilities			
Deferred tax liability		**266**	283
Employee benefits		**40**	37
Provisions		**198**	98
Borrowings	13	**1,702**	196
		2,206	614
Current liabilities			
Provisions		**133**	14
Borrowings	13	**498**	2
Trade and other payables		**306**	224
Income taxes payable		**36**	65
Derivative financial instruments		**2**	-
Dividend payable		**2**	2
		977	307
TOTAL LIABILITIES		**3,183**	921
TOTAL EQUITY AND LIABILITIES		**10,680**	7,354

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2008

$ million	Notes	2008	2007
Cash flows from operating activities			
Cash inflow from operations before interest, income taxes and dividends from associate	14	**1,752**	2,000
Interest paid		**(70)**	(14)
Income taxes paid		**(621)**	(850)
Dividends from associate		**38**	-
Net cash inflow from operating activities		**1,099**	1,136
Cash flows from investing activities			
Interest received		**28**	121
Proceeds from disposal of property, plant and equipment		**17**	8
Purchase of intangible assets		**(12)**	(459)
Purchase of property, plant and equipment		**(654)**	(455)
Investments in mining assets		**(28)**	(30)
Licence payments for subsoil contracts		**(3)**	(3)
Proceeds from disposal of non-current investments		**14**	3
Acquisition of non-current investments		**(2)**	(9)
Proceeds from disposal of assets held for trading		**-**	52
Investment in short-term bank deposits (net)		**25**	1,133
Acquisition of available for sale investments		**-**	(806)
Acquisition of associate		**(918)**	-
Payment of deferred consideration arising from business acquisition		**(5)**	-
Acquisition of subsidiaries (net of cash acquired)		**(993)**	(259)
Net cash flows used in investing activities		**(2,531)**	(704)
Cash flows from financing activities			
Purchase of minority interests		**-**	(12)
Purchase of Company's issued share capital		**(121)**	(270)
Proceeds from borrowings (net of arrangement fees of $21 million)		**2,122**	-
Repayment of borrowings		**(268)**	(112)
Dividends paid by the Company		**(200)**	(419)
Dividends paid by subsidiary to minority interests		**-**	(5)
Net cash flows from/(used in) financing activities		**1,533**	(818)
Net increase/(decrease) in cash and cash equivalents		**101**	(386)
Cash and cash equivalents at the beginning of the year		**439**	786
Effect of exchange rate changes on cash and cash equivalents		**-**	39
Cash and cash equivalents at the end of the year	15	**540**	439

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2008

		Attributable to equity shareholders of the Company						
$ million	Notes	Share capital	Share premium	Capital reserves[1]	Retained earnings	Total	Minority interests	Total equity
At 1 January 2007		173	504	266	2,916	3,859	32	3,891
Profit for the year		-	-	-	1,416	1,416	11	1,427
Unrealised gain on available for sale investments		-	-	1,595	-	1,595	-	1,595
Currency translation differences		-	-	223	-	223	-	223
Total income and expense for the year		-	-	1,818	1,416	3,234	11	3,245
Shares issued pursuant to acquisition of minority interest in subsidiary (net of issue costs of $1 million)	12(a)	1	66	-	(52)	15	(27)	(12)
Purchase of Company's issued share capital	12(a)	(4)	-	4	(270)	(270)	-	(270)
Equity dividends paid by the Company	9	-	-	-	(419)	(419)	-	(419)
Equity dividends paid by subsidiary to minority shareholders		-	-	-	-	-	(2)	(2)
At 31 December 2007		170	570	2,088	3,591	6,419	14	6,433
Profit for the year		**-**	**-**	**-**	**909**	**909**	**1**	**910**
Unrealised gain on available for sale investments		**-**	**-**	**1,041**	**-**	**1,041**	**-**	**1,041**
Impairment of associate recognised against unrealised gain on available for sale investment in equity		**-**	**-**	**(2,636)**	**-**	**(2,636)**	**-**	**(2,636)**
Share of gains/(losses) of associate recognised in equity		**-**	**-**	**(11)**	**-**	**(11)**	**5**	**(6)**
Movement in cash flow hedges		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Currency translation differences		**-**	**-**	**(36)**	**-**	**(36)**	**-**	**(36)**
Total income and expense for the year		**-**	**-**	**(1,641)**	**909**	**(732)**	**6**	**(726)**
Shares issued pursuant to acquisition of interest in associate (net of issue costs of $10 million)	12(a)	**32**	**2,078**	**-**	**-**	**2,110**	**-**	**2,110**
Purchase of Company's issued share capital	12(a)	**(2)**	**-**	**2**	**(121)**	**(121)**	**-**	**(121)**
Share-based payment		**-**	**-**	**-**	**1**	**1**	**-**	**1**
Equity dividends paid by the Company	9	**-**	**-**	**-**	**(200)**	**(200)**	**-**	**(200)**
At 31 December 2008		**200**	**2,648**	**449**	**4,180**	**7,477**	**20**	**7,497**

1 Refer to note 12(b) for an analysis of 'Capital reserves'.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

YEAR ENDED 31 DECEMBER 2008

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.

The figures shown are based on the statutory accounts for the relevant years on which the auditors reports were unqualified but do not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The annual report and accounts for the current year were approved by the Board of Directors on 30 March 2009 but have not yet been delivered to the Registrar of Companies.

2. BASIS OF PREPARATION

The financial information has been prepared using consistent accounting policies. Following best practice within the metals and mining industry, the Group has updated its revenue recognition accounting policy such that final pricing adjustments on sales contracts are considered to be embedded derivatives which need to be fair valued separately. The impact for the year ended 31 December 2008 has been to reduce profit after tax by $6 million with an insignificant impact on basic and diluted earnings per share. The change in accounting policy does not have a significant impact on the comparative numbers for the year ended 31 December 2007.

(a) Basis of accounting

The consolidated financial information has 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, available for sale investments and derivative financial instruments which have been measured at fair value. The consolidated financial information is presented in US dollars ($) and all financial information has been rounded to the nearest million dollar ($ million) except when otherwise indicated.

(b) Basis of consolidation

The consolidated financial information set out the Group's financial position as at 31 December 2008 and the Group's financial performance for the year ended 31 December 2008.

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.

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.

Entities in which the Group has the ability to exercise significant influence and which are neither subsidiaries nor joint ventures, are associates, and are accounted for using the equity method of accounting. There is a rebuttable presumption of the ability to exercise significant influence when the Group holds between 20% and 50% of the voting power of another entity.

Under the equity method of accounting, the investment in the associate is recognised on the balance sheet on the date of acquisition at cost representing the fair value of the purchase consideration and therefore includes any goodwill on acquisition. The carrying amount is adjusted by the Group's share of the post-acquisition profit or loss net of any impairment losses and dividends receivable from the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes in equity.

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.

(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, and in accordance with the provisions of the Companies Acts 1985 and 2006.

(d) Going concern

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above.

The global economic downturn has resulted in a significant fall in commodity prices during the fourth quarter of 2008 and into 2009. Whilst the Group has good access to customers in the key markets of China and Europe as a result of its advantageous geographical position, a period of sustained commodity price weakness will significantly reduce the profitability of the Group and cash generation from the operating businesses compared to 2008.

As a result of acquisitions made during 2008, the Group has moved into a net debt position of $1,628 million as at 31 December 2008. Of the outstanding debt balance of $2,200 million at 31 December 2008, $626 million is repayable over the next 12 months to March 2010. Further details of the repayment profile can be found in note 13.

In response to market conditions, the Group has implemented a series of cost cutting measures in the operating businesses, including a significant reduction in discretionary capital expenditure for 2009. The Directors have also not recommended a final dividend for 2008. Advanced negotiations over the sale of a proportion of Ekibastuz GRES-1 are taking place which, if successful, should generate significant proceeds which will be used to reduce the Group's debt. In addition, the Group's future borrowing requirements are being discussed with its bankers, its major shareholders and the Government of Kazakhstan. The Group's major capital expenditure projects will only proceed to the extent that committed financing is fully secured.

As at 31 December 2008, the Group has available funds totalling $572 million, and an undrawn revolving credit facility of $200 million, of which $150 million has been put on a committed basis to 31 March 2010. The Group also holds a 26% stake in ENRC (a FTSE 100 listed entity on the London Stock Exchange) which, at 27 March 2009, had a market value of $2,165 million.

The Directors believe that the Group's current cash position and available credit lines, the cost cutting measures implemented within the operating businesses, together with the curtailment in discretionary capital spending, anticipated sales proceeds from the disposal of a proportion of Ekibastuz GRES-1 and other potential asset disposals, all provide sufficient cover to meet the Group's anticipated cash flow requirements. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

3. BUSINESS ACQUISITION

Year ended 31 December 2008 - Ekibastuz power plant and Maikuben West coal mine

On 29 May 2008 the Group acquired 100% of the Ekibastuz coal-fired power plant and the Maikuben West coal mine in Kazakhstan. The businesses were acquired for a total consideration of $1,264 million. The consideration comprises an initial cash consideration paid on 29 May 2008 of $1,097 million, deferred consideration payments with a present value of $169 million, acquisition costs of $7 million less an amount received of $9 million from the seller on 1 December 2008 in relation to adjustments to the closing statement under the terms of the sale and purchase agreement. The net cash outflow, net of cash acquired from the acquisition was $993 million. At the acquisition date, the combined net identifiable assets and liabilities of the businesses, including fair value adjustments, were as follows:

$ million	Carrying value at acquisition date	Fair value adjustments at acquisition date	Fair value at acquisition (restated)[1]
Assets			
Intangible assets[2]	6	(5)	1
Property, plant and equipment[2]	131	858	989
Mining assets[2]	1	45	46
Inventories	17	1	18
Trade and other receivables	26	8	34
Cash and cash equivalents	102	-	102
Liabilities			
Deferred tax liability[3]	(12)	(267)	(279)
Provisions	(14)	(33)	(47)
Borrowings	(159)	-	(159)
Trade and other payables	(35)	-	(35)
Net identifiable assets	**63**	**607**	**670**
Goodwill arising on acquisition			594
Total acquisition cost			**1,264**

1 Restated from the 2008 half-yearly accounts.
2 Fair value adjustments have been made to reflect initial estimates of the fair values of intangible assets, property, plant and equipment and reserves and resources.
3 The increase in the deferred tax liability largely reflects the tax effect of the fair value adjustments.

The most significant fair value adjustment is in relation to property, plant and equipment. The fair value of property, plant and equipment was determined by an external professionally qualified valuer using a combination of market values and depreciated replacement cost based on the existing capacity of the power plant whilst taking into account future tariff increases as derived from the Company's acquisition model.

Goodwill of $594 million has arisen from the acquisition of the businesses and will be tested at least annually for impairment. This goodwill can be broken down into two elements:

- goodwill of $327 million representing the difference between the cost of the acquisition and the fair value of identifiable assets and liabilities acquired, excluding deferred tax on the fair value adjustments. This goodwill has arisen as the fair values of the identifiable assets do not take into account the future capital expenditure programme of the businesses which should result in an increased capacity of the power plant from 2,250 MW to 4,000 MW. A combination of the future capacity increase, additional tariff increases and the ability for the Group to benefit from these improvements are the main drivers behind the goodwill balance arising on this transaction; and

- goodwill of $267 million arising as a consequence of the requirement to recognise a deferred tax liability on the fair value adjustments. The deferred tax liability, which gives rise to the goodwill, has been calculated based on a corporate income tax rate of 30%, the prevailing tax rate at the date of acquisition.

Subsequent to the date of acquisition, in December 2008 the Government passed new tax legislation effective from 1 January 2009 which will lead to a phased reduction in the corporate income tax rate in Kazakhstan from 30% in 2008 to 15% in 2011. Since these new rates were substantially enacted by 31 December 2008, the deferred tax liability on the fair value adjustments has been recalculated as $141 million. This results in a taxation credit in the income statement of $126 million, which has been included within special items in the calculation of Underlying Profit due to its non-recurring nature (see note 8(b)).

From the date of acquisition, the Ekibastuz power plant and the Maikuben West coal mine have contributed profit after tax of $129 million to the profit after tax of the Group for the year ended 31 December 2008, which includes a one-off deferred taxation credit in the income statement of $126 million. If the acquisition had taken place at the beginning of the year, the profit after tax of the Group would have been $1 million higher at $911 million and revenues would have been $108 million higher at $5,259 million.

4. 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.

The Group's activities principally relate to:

- Kazakhmys Copper operations which involve the production and sale of:
  - Copper cathodes, rod and copper metal in concentrate;
  - Zinc metal and zinc metal in concentrate;
  - Gold and silver; and
  - Other by-product metals (lead, rhenium, selenium, cadmium and sulphuric acid);
- German copper processing operation;
- Kazakhstan power generation operation;
- Central Asian gold production, exploration and development activity;
- Kazakhstan oil and gas exploration and development activity.

Segmental information is also provided in respect of revenues, by destination and by product.

(a) Business segments

In the year ended 31 December 2008, the Group operated the following five business segments: Kazakhmys Copper, MKM, Kazakhmys Power, Kazakhmys Gold and Kazakhmys Petroleum. In the year ended 31 December 2007 the Group operated four business segments: Kazakhmys Copper, MKM, Kazakhmys Gold and Kazakhmys Petroleum.

Kazakhmys Copper

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 Kazakhmys Copper segment includes a UK company, Kazakhmys Sales Ltd, which consists of a trading function responsible for the purchases of exported products from the Kazakhmys Copper operations in Kazakhstan, application of an appropriate mark-up and then onward sale to third parties. During 2007, the UK trading function was part of Kazakhmys PLC.

For the purposes of business segmental reporting, the UK 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.

MKM

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

Kazakhmys Power
In May 2008, the Group acquired the Ekibastuz coal-fired power plant and the Maikuben West coal mine. The principal activities of the Kazakhmys Power segment, representing the Ekibastuz and Maikuben West businesses, is the sale of electricity to external customers. This segment does not include the power stations and coal mines which are part of the Kazakhmys Copper segment as the output from those power stations and coal mines is primarily used within the Kazakhmys Copper business, and the level of external sales is comparatively insignificant.

Kazakhmys Gold
In July 2007 the Group acquired Eurasia Gold Inc. (subsequently renamed Kazakhmys Gold). The principal activities of Kazakhmys Gold are the mining and processing of gold ore into refined ore and exploration and development activity in the precious metal sector within the Central Asian region.

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

(i) Income statement information

$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
							Year ended 31 December 2008
Sales to external customers	**3,227**	**1,719**	**156**	**49**	**-**	**-**	**5,151**
Gross profit	**1,639**	**36**	**62**	**17**	**-**	**-**	**1,754**
Operating costs	**(304)**	**(60)**	**(55)**	**(7)**	**(1)**	**(31)**	**(458)**
Impairment losses	**(221)**	**(17)**	**(2)**	**(158)**	**(2)**	**-**	**(400)**
Segment operating results	**1,114**	**(41)**	**5**	**(148)**	**(3)**	**(31)**	**896**
Share of profits from associate[1]							**255**
Profit before finance items and taxation							**1,151**
Net finance costs and income tax expense							**(241)**
Profit for the year							**910**

1 Share of profits from associate is net of tax.

$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated[1]	Total
						Year ended 31 December 2007
Sales to external customers	3,588	1,643	25	-	-	5,256
Gross profit	2,359	61	4	-	-	2,424
Operating (costs)/income	(354)	(50)	(3)	(1)	62	(346)
Impairment losses	(28)	(1)	-	(1)	-	(30)
Segment results	1,977	10	1	(2)	62	2,048
Net finance costs and income tax expense						(621)
Profit for the year						1,427

1 Includes dividend received of $94 million from ENRC PLC.

(ii) Balance sheet information

At 31 December 2008

$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
Assets							
Tangible and intangible assets	**2,277**	**150**	**1,631**	**137**	**520**	**12**	**4,727**
Non-current investments	**4**	**1**	**-**	**-**	**-**	**-**	**5**
Intragroup investments	**-**	**-**	**-**	**-**	**-**	**6,249**	**6,249**
Operating assets[1]	**888**	**233**	**27**	**22**	**1**	**36**	**1,207**
Current investments	**32**	**-**	**-**	**-**	**-**	**-**	**32**
Cash and cash equivalents	**330**	**-**	**26**	**14**	**5**	**165**	**540**
Segment assets	**3,531**	**384**	**1,684**	**173**	**526**	**6,462**	**12,760**
Income taxes reclaimable							**126**
Investment in associate							**4,045**
Elimination							**(6,251)**
Total assets							**10,680**
Liabilities							
Employee benefits and provisions	**122**	**7**	**214**	**2**	**26**	**-**	**371**
Operating liabilities[2]	**240**	**28**	**24**	**2**	**3**	**15**	**312**
Segment liabilities	**362**	**35**	**238**	**4**	**29**	**15**	**683**
Deferred tax liability							**266**
Borrowings							**2,200**
Income taxes payable							**36**
Elimination							**(2)**
Total liabilities							**3,183**

1 Operating assets include inventories, prepayments and other current assets and trade and other receivables.
2 Operating liabilities include trade and other payables, derivative financial instruments and dividends payable by subsidiaries.

At 31 December 2007

$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
Assets						
Tangible and intangible assets	2,125	172	295	482	11	3,085
Non-current investments	10	2	-	-	2,401	2,413
Intragroup investments	-	-	-	-	1,980	1,980
Operating assets[1]	1,039	386	17	1	149	1,592
Current investments	57	-	-	-	-	57
Cash and cash equivalents	217	7	14	21	180	439
Segment assets	3,448	567	326	504	4,721	9,566
Elimination						(2,212)
Total assets						7,354
Liabilities						
Employee benefits and provisions	112	9	2	26	-	149
Operating liabilities[2]	304	41	2	1	110	458
Segment liabilities	416	50	4	27	110	607
Deferred tax liability						283
Borrowings						198
Income taxes payable						65
Elimination						(232)
Total liabilities						921

1 Operating assets include inventories, prepayments and other current assets and trade and other receivables.
2 Operating liabilities include trade and other payables and dividends payable by subsidiaries.

(iii) Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding special items[1] by business segments

$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
							Year ended 31 December 2008
Operating profit/(loss)	**1,114**	**(41)**	**5**	**(148)**	**(3)**	**(31)**	**896**
Special items:							
Add: impairment of property, plant and equipment	**118**	**-**	**-**	**-**	**2**	**-**	**120**
Add: impairment of goodwill	**-**	**-**	**-**	**46**	**-**	**-**	**46**
Add: impairment of mining assets	**14**	**-**	**-**	**112**	**-**	**-**	**126**
Add: provisions against inventory	**73**	**15**	**-**	**-**	**-**	**-**	**88**
Add: loss on disposal of property, plant and equipment	**1**	**-**	**1**	**-**	**-**	**-**	**2**
Profit/(loss) before finance items and taxation excluding special items	**1,320**	**(26)**	**6**	**10**	**(1)**	**(31)**	**1,278**
Add: depreciation and depletion	**274**	**25**	**36**	**9**	**-**	**2**	**346**
Add: amortisation	**3**	**-**	**-**	**-**	**-**	**-**	**3**
Segment EBITDA excluding special items	**1,597**	**(1)**	**42**	**19**	**(1)**	**(29)**	**1,627**
Share of EBITDA of associate	**-**	**-**	**-**	**-**	**-**	**429**	**429**
Group EBITDA excluding special items	**1,597**	**(1)**	**42**	**19**	**(1)**	**400**	**2,056**

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.

$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated[2]	Total
						Year ended 31 December 2007
Operating profit/(loss)	1,977	10	1	(2)	62	2,048
Special items:						
Add: impairment of property, plant and equipment	25	-	-	1	-	26
Less: gain on disposal of property, plant and equipment	(2)	-	-	-	-	(2)
Profit/(loss) before finance items and taxation excluding special items	2,000	10	1	(1)	62	2,072
Add: depreciation and depletion	231	24	5	-	1	261
Add: amortisation	3	-	-	-	-	3
Group EBITDA excluding special items	2,234	34	6	(1)	63	2.336

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 received of $94 million from ENRC PLC.

(iv) Net liquid funds/(debt) by business segments

$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
							At 31 December 2008
Cash and cash equivalents	**330**	**-**	**26**	**14**	**5**	**165**	**540**
Current investments	**32**	**-**	**-**	**-**	**-**	**-**	**32**
Borrowings[1]	**(11)**	**(121)**	**(171)**	**(4)**	**-**	**(3,687)**	**(3,994)**
Inter-segment borrowings[2]	**11**	**-**	**171**	**4**	**-**	**1,608**	**1,794**
Net liquid funds/(debt)	**362**	**(121)**	**26**	**14**	**5**	**(1,914)**	**(1,628)**

1 Borrowings of Corporate unallocated are presented net of capitalised arrangement fees of $21 million.
2 Borrowings of Corporate unallocated include amounts borrowed from the Kazakhmys Copper segment and amounts lent to the Kazakhmys Power and Kazakhmys Gold segments.

$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
						At 31 December 2007
Cash and cash equivalents	217	7	14	21	180	439
Current investments	57	-	-	-	-	57
Borrowings	-	(196)	(2)	-	(1,265)	(1,463)
Inter-segment borrowings[1]	-	-	-	-	1,265	1,265
Net liquid funds/(debt)	274	(189)	12	21	180	298

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

(v) Capital expenditure, depreciation, and impairment losses by business segments

$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
							Year ended 31 December 2008
Property, plant and equipment	**559**	**10**	**38**	**8**	**42**	**-**	**657**
Mining assets	**24**	**-**	**-**	**5**	**-**	**-**	**29**
Intangible assets	**9**	**1**	**1**	**-**	**-**	**4**	**15**
Capital expenditure	**592**	**11**	**39**	**13**	**42**	**4**	**701**
Depreciation and depletion	**274**	**25**	**36**	**9**	**-**	**2**	**346**
Amortisation	**3**	**-**	**-**	**-**	**-**	**-**	**3**
Depreciation, depletion and amortisation	**277**	**25**	**36**	**9**	**-**	**2**	**349**
Impairment losses	**221**	**17**	**2**	**158**	**2**	**-**	**400**

$ million	Kazakhmys Copper	MKM	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
						Year ended 31 December 2007
Property, plant and equipment	432	11	2	7	3	455
Mining assets	28	-	2	-	-	30
Intangible assets	10	-	4	476	4	494
Capital expenditure	470	11	8	483	7	979
Depreciation and depletion	231	23	6	-	1	261
Amortisation	3	-	-	-	-	3
Depreciation, depletion and amortisation	234	23	6	-	1	264
Impairment losses	28	1	-	1	-	30

(b) Segmental information in respect of revenues

Revenues by product are as follows:

$ million	**2008**	2007
Kazakhmys Copper		
Copper cathodes	**2,272**	2,516
Copper rods	**314**	251
Silver in granules	**251**	256
Gold bullion	**109**	80
Zinc metal	**88**	124
Zinc metal in concentrate	**61**	201
Other by-products	**70**	86
Other revenue	**62**	74
	3,227	3,588
MKM		
Wire	**783**	763
Sheet steel and steel strips	**571**	509
Tubes and bars	**337**	319
Metal trade	**28**	52
	1,719	1,643
Kazakhmys Power		
Electricity generation	**123**	-
Coal	**33**	-
	156	-
Kazakhmys Gold		
Gold doré	**49**	25
	49	25
Total revenues	**5,151**	5,256

(c) Revenues by destination

$ million	**Europe**	**China**	**Kazakhstan**	**Other**	**Total**
					Year ended 31 December 2008
Sales to third parties	**3,401**	**1,038**	**345**	**367**	**5,151**

$ million	Europe	China	Kazakhstan	Other	Total
					Year ended 31 December 2007
Sales to third parties	3,138	1,460	150	508	5,256

5. IMPAIRMENT LOSSES

$ million	**2008**	2007
Impairment of goodwill – note 5(b)	**46**	-
Impairment of other intangible assets	**2**	-
Impairment of property, plant and equipment:		
Zinc smelter – note 5(a)	**75**	-
Other – note 5(c)	**45**	26
Impairment of mining assets:		
Kazakhmys Gold – note 5(b)	**112**	-
Other – note 5(c)	**14**	-
Provisions against inventories – note 5(d)	**88**	-
Provisions against trade and other receivables	**14**	2
Provisions against prepayments and other current assets	**4**	2
	400	30

(a) Zinc smelter

Included within impairment of property, plant and equipment is an impairment charge of $75 million relating to the Balkhash zinc smelter, which is included within the Kazakhmys Copper segment, and is part of this segment's zinc cash generating unit. An impairment charge has been recognised following management's decision to cease production at the zinc smelter in light of adverse changes in assumptions about future zinc prices and operating costs. The carrying value of the zinc smelter as at 31

December 2008 was $75 million, and in light of management's decision to cease production, the entire carrying value has been impaired.

(b) Kazakhmys Gold

Impairment of mining assets includes an amount of $112 million relating to the impairment of Kazakhmys Gold. An impairment charge has been recognised following a general change in the long-term strategy of the division, with the outlook for existing mines and development projects being less attractive than originally anticipated at the time of the acquisition. The value in use was assessed by reference to cash flow forecasts discounted at a pre-tax rate of 10%. Furthermore, goodwill of $46 million recognised on the acquisition of Kazakhmys Gold (as a result of the requirement to provide deferred tax on the acquisition fair value adjustments) has also been written off during the year.

(c) Kazakhmys Copper mining assets and property, plant and equipment

An impairment charge has been recognised within the Kazakhmys Copper segment on the property, plant and equipment and mining assets associated with the closure of certain mines which are loss making in a period of sustained commodity price weakness and are unlikely, in management's best estimate, to reopen in the foreseeable future.

(d) Kazakhmys Copper and MKM inventories

Impairment of inventories include an amount of $73 million and $15 million in respect of Kazakhmys Copper and MKM, respectively. For Kazakhmys Copper, the impairment primarily relates to the impairment of stockpiled ore which is not going to be processed in the foreseeable future as its processing is uneconomic at current commodity price levels. Within MKM, a provision has been recognised to record inventory at the lower of cost and net realisable value. This primarily relates to finished goods held in stock at the end of the year which have been written down reflecting the fall in copper price in December.

6. FINANCE INCOME AND FINANCE COSTS

$ million	**2008**	2007
Finance income		
Interest income	**23**	94
Foreign exchange gains	**115**	166
Total finance income	**138**	260
Finance costs		
Interest expense	**(66)**	(14)
Interest on employee obligations	**(4)**	(3)
Unwinding of discount on provisions	**(5)**	(8)
Finance costs before foreign exchange losses	**(75)**	(25)
Foreign exchange losses	**(128)**	(257)
Total finance costs	**(203)**	(282)

7. INCOME TAX

Income statement

Major components of income tax expense for the years presented are:

$ million	**2008**	2007
Current income tax		
Corporate income tax – current period (UK)	**5**	18
Corporate income tax – current period (overseas)	**446**	696
Corporate income tax – prior periods	**(9)**	(28)
Excess profits tax – current period	**27**	52
Excess profits tax – prior periods	**-**	(9)
	469	729
Deferred income tax		
Corporate income tax – current period	**(281)**	(115)
Corporate income tax – prior periods	**(13)**	(9)
Excess profits tax – current period	**1**	(6)
	(293)	(130)
Income tax expense	**176**	599

A reconciliation of income tax expense applicable to the accounting profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

$ million	**2008**	2007
Profit before taxation	**1,086**	2,026
At statutory income tax rate of 28.5%[1] (2007: 30.0%)	**310**	608
Tax effect of share of profits from associate	**(73)**	-
Overprovided in previous years – deferred income tax	**(13)**	(9)
Overprovided in previous years – current income tax	**(9)**	(28)
Unrecognised/(use of previously unrecognised) tax losses	**9**	(31)
Effect of domestic tax rates applicable to individual Group entities	**16**	(1)
Release of deferred tax liability due to change in future tax rates	**(146)**	(11)
Unremitted overseas earnings	**41**	-
Non-deductible expenses/(non-taxable income):		
Non-taxable income on zinc plant	**(6)**	(26)
Non-deductible expenses	**19**	60
Excess profits tax	**28**	37
At effective income tax rate of 16.2% (2007: 29.6%)	**176**	599

1 The UK statutory income tax rate for January to March 2008 was 30% and for April to December 2008 was 28%, giving a weighted average full-year rate of 28.5% for 2008.

Corporate income tax is calculated at 28.5% (2007: 30.0%) of the assessable profit for the period for the Company and its UK subsidiaries and 30.0% for the operating subsidiaries in Kazakhstan. The MKM tax rate is calculated at 28.5% (2007: 37.3%) 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 19% (2007: 15%).

The effective tax rate is lower than the statutory rate due to the taxation credit in respect of deferred income tax (see below), and the impact of equity accounting for the associate. The Group's interest in the earnings of ENRC is included, net of tax, in the consolidated income statement below the Group's operating profit in arriving at profit before taxation, thereby reducing the effective tax rate. Excluding the impact of these deferred tax adjustments and the impact of equity accounting, the Group's effective income tax rate for the year would be 31.7%.

The income tax expense for the year includes a credit of $178 million in respect of deferred income tax. This credit arises due to the impairment of the Kazakhmys Gold business and the enactment of new tax legislation within Kazakhstan in December 2008, which is effective from 1 January 2009, that leads to a phased reduction in the corporate income tax rate from 30% in 2008 to 15% in 2011. This credit is primarily made up of the following:

- on the acquisition of Kazakhmys Gold in July 2007, a deferred tax liability of $46 million was recognised arising from the requirement to provide deferred tax on the acquisition fair value adjustments, with a corresponding entry to goodwill. The goodwill recognised on acquisition and a proportion of the mining assets of the Kazakhmys Gold business have been impaired during the year and this results in a taxation credit in the income statement of $32 million;

- as described in note 3, on completion of the acquisition of Kazakhmys Power in May 2008, a deferred tax liability of $267 million was recognised arising from the requirement to provide deferred tax on the acquisition fair value adjustments, with a corresponding entry to goodwill. The deferred tax liability was calculated based on a corporate income tax rate of 30%, the prevailing tax rate at the date of acquisition. Since the rates included within the new Kazakh tax legislation, effective from 1 January 2009, were substantially enacted by 31 December 2008, the deferred tax liability on the fair value adjustments has been recalculated as $141 million resulting in a taxation credit in the income statement of $126 million; and

- the non-acquisition related deferred tax liabilities within the Group's Kazakh businesses have been recalculated taking into account the lower corporate income tax rates resulting from the new Kazakh tax legislation, effective from 1 January 2009. This calculation gives rise to a $20 million taxation credit in the income statement.

Future tax charges are affected by the mix of profits and tax rates in the various tax jurisdictions in which the Group operates. As stated above, with the enactment of new tax legislation in Kazakhstan in December 2008, which is effective from 1 January 2009, there will be a phased reduction in the corporate income tax rate from 30% in 2008 to 15% in 2011. This reduction in corporate income tax rates will have the effect of significantly lowering the Group's overall future effective tax rate below the current UK statutory corporate income tax rate of 28%.

8. 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	**2008**	2007
Net profit attributable to equity shareholders of the Company	**909**	1,416

Number	**2008**	2007
Number of shares		
Weighted average number of ordinary shares of 20 pence each for EPS calculation	**490,289,985**	466,073,506
EPS – basic and diluted ($)	**1.85**	3.04

The weighted average number of shares has increased due to the issue of 80,286,050 ordinary shares of 20 pence each to the Government in exchange for 98,604,884 shares in ENRC PLC on 24 July 2008, offset by the completion of the share buy-back programme in January 2008.

(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 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.

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	2008	2007
Net profit attributable to equity shareholders of the Company	**909**	1,416
Special items:		
Impairment of goodwill – note 5(b)	**46**	-
Impairment of property, plant and equipment:		
Zinc smelter – note 5(a)	**75**	-
Other – note 5(c)	**45**	26
Impairment of mining assets:		
Kazakhmys Gold – note 5(b)	**112**	-
Other – note 5(c)	**14**	-
Provisions against inventories	**88**	-
Loss/(gain) on disposal of property, plant and equipment	**2**	(2)
Release of deferred tax liabilities:		
Group restructuring	**-**	(31)
Impairment of Kazakhmys Gold – note 7	**(32)**	-
Change in tax rates on Kazakhmys Power fair value adjustments – note 7	**(126)**	-
Change in tax rates on non acquisition-related deferred tax liabilities in Kazakhstan – note 7	**(20)**	-
Minority interest effect of non-recurring items	**(1)**	-
Underlying Profit	**1,112**	1,409

Number	2008	2007
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	**490,289,985**	466,073,506
EPS based on Underlying Profit – basic and diluted ($)	**2.27**	3.02

9. DIVIDENDS PAID AND PROPOSED

(a) Dividends paid

The dividends paid during the years ended 31 December 2008 and 2007 are as follows:

	Per share US cents	Amount $ million
Year ended 31 December 2008		
Final dividend in respect of year ended 31 December 2007	**27.4**	**125**
Interim dividend in respect of year ended 31 December 2008	**14.0**	**75**
	41.4	**200**
Year ended 31 December 2007		
Final dividend in respect of year ended 31 December 2006	25.7	120
Interim dividend in respect of year ended 31 December 2007	13.6	64
Special dividend fin respect of year ended 31 December 2007	50.0	235
	89.3	419

(i) Year ended 31 December 2008

On 8 May 2008 the Company paid the final dividend of $125 million in respect of the year ended 31 December 2007 to shareholders on the register as at 4 April 2008. This final dividend was sourced by way of payment of an interim dividend in respect of the year ended 31 December 2007 by Kazakhmys LLC.

On 31 October 2008, the Company paid an interim dividend of $75 million in respect of the year ended 31 December 2008 to shareholders on the register as at 3 October 2008. This interim dividend was largely sourced by way of payment of the final dividend in respect of the year ended 31 December 2007 by Kazakhmys LLC.

(ii) Year ended 31 December 2007

On 14 May 2007, the Company paid the final dividend of $120 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 interim and special dividends of $299 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.

10. AVAILABLE FOR SALE INVESTMENTS

$ million	**2008**	2007
At 1 January	**2,401**	-
Additions	**-**	806
Revaluation to fair value	**1,041**	1,595
Reclassification of available for sale investment to investment in associate	**(3,442)**	-
At 31 December	**-**	2,401

The available for sale investment relates to the Group's shareholding in ENRC (prior to this investment being treated as an associate) and the fair value is determined by reference to the published price quotation on the London Stock Exchange.

As explained below in note 11, following the share exchange with the Government, the investment was reclassified from being an available for sale investment to an investment in associate. The unrealised gain on the available for sale investment, included within capital reserves, was correspondingly released through equity against the investment in associate

11. INVESTMENT IN ASSOCIATE

On 26 October 2007, the Group acquired an 18.8% interest in ENRC at a price of $806 million. At the time of the listing of ENRC on the main board of the London Stock Exchange in December 2007, new shares were issued by ENRC to which the Group did not subscribe 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 Group's 14.6% shareholding in ENRC was classified as an available for sale investment and was recorded at a fair value of $2,401 million.

On 24 July 2008, the Company issued 80,286,050 ordinary shares of 20 pence each to the Government in exchange for 98,607,884 shares in ENRC, which it received on 28 July 2008. The share price of the Company as at the date of the share issue was £13.17 per share, and the market value of the shares issued was $2,110 million. In addition stamp duty of $10 million was incurred, taking the total cost of the transaction to $2,120 million. Following completion of these transactions, the Group's shareholding in ENRC increased to 22.2%.

Between 31 July and 8 August 2008, the Group purchased for a total cost of $800 million, a further 35,733,717 shares in ENRC thereby taking the Group's total holding in ENRC to 25.0% of the issued share capital.

Between 2 October and 27 October 2008, the Group purchased, for a total cost of $108 million, a further 12,647,009 shares in ENRC thereby taking the Group's total holding in ENRC to 334,824,860 or 26.0% of the issued share capital.

After the completion of these transactions, the total number of shares held by the Group in ENRC at 31 December 2008 was 334,824,860.

$ million	**2008**
Investment in associate	
At 1 January	**-**
Reclassification from available for sale investment	**3,442**
Additions	**3,028**
Share of profits from associate[1]	**255**
Net share of losses of associate recognised in equity	**(6)**
Impairment recognised against unrealised gain on available for sale investment in equity	**(2,636)**
Dividends received	**(38)**
At 31 December	**4,045**

1 Share of profits from associate is net of tax.

At 31 December 2008, the Group's 26.0% in ENRC had a market value of $1,600 million which is determined by reference to the published price quotation on the London Stock Exchange.

Following the piecemeal acquisition of the associate, the Group's investment in associate has been impaired by $2,636 million. This impairment charge has been recognised directly in equity against the unrealised gain on the available for sale investment, and there is no impact on the consolidated income statement. The impairment arose due to the requirements of IFRS 3 'Business combinations' and IAS 28 'Investments in associates' which requires the cost of acquisition of each tranche to be compared to the fair value of the net identifiable assets of the acquiree. With the exception of the acquisition of the final tranche of ENRC shares in October 2008, the acquisitions in July and August 2008 were undertaken prior to the sharp decrease in commodity prices and share prices of listed natural resource companies, at a time when the prevailing market value of ENRC has since been considered to have been at an elevated level compared to ENRC's recoverable amount at that time. The Group's cost of investment in associate in excess of the value in-use has therefore been impaired and this has been recognised against the unrealised gain within equity (from when the shareholding was classified as an available for sale investment) arising prior to the time when the Group equity accounted its investment in ENRC. The recoverable amount used in assessing the impairment charge is based on a value in use methodology using a discounted cash flow model. The future cash flows are discounted using a pre-tax discount rate of 13%.

In light of the current volatility in share prices, particularly those of natural resource industry companies and the £/$ exchange rate, the Directors do not believe that the Group's investment in the associate is impaired at 31 December 2008 as the Directors' assessment of ENRC's recoverable amount, using long-term forecasts and assumptions, supports ENRC's carrying value at 31 December 2008.

The accounting period end of ENRC is 31 December.

The following is a summary of the financial information of the Group's investment in ENRC based on ENRC's published results:

$ million	2008
Share of associate's balance sheet	
Total assets	**2,604**
Total liabilities	**(446)**
Net assets	**2,158**
Carrying amount of the investment	**4,045**

$ million	2008
Share of associate's revenue and profit	
Revenue	**721**
Operating profit	**372**
Profit before finance items and taxation	**370**
Net finance costs	**(16)**
Income tax expense	**(99)**
Profit for the period	**255**

12. SHARE CAPITAL AND RESERVES

(a) Authorised and allotted share capital

	Number	£ million	$ million
Authorised - At 31 December 2008 and 31 December 2007			
Ordinary shares of 20 pence each	750,000,000	150	-
Allotted and called up share capital			
At 1 January 2007	467,474,200	93	173
Shares issued	2,559,665	1	1
Purchase of Company's issued share capital	(9,910,577)	(2)	(4)
At 31 December 2007	460,123,288	92	170
Purchase of Company's issued share capital	(5,169,000)	(1)	(2)
Shares issued	80,286,050	16	32
At 31 December 2008	**535,240,338**	**107**	**200**

In September 2007, the Company issued 2,559,665 ordinary shares of 20 pence each and paid $12 million in consideration for the transfer to it of 227,959,211 units in Kazakhmys LLC by minority shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.08% as at 1 January 2007 to 99.73% as at 31 December 2007.

Commencing from October 2007, the Company began a share buy-back programme, which concluded in January 2008, whereby the Company bought back and cancelled 15,079,577 ordinary shares at a total cost of $391 million including expenses, of which 5,169,000 were cancelled in 2008 at total cost of $121 million including expenses.

In July 2008 the Company issued 80,286,050 ordinary shares of 20 pence each to the Government in exchange for 98,607,884 shares in ENRC. The share price of the Company as at the date of the share issue was £13.17 per share, and the market value of the shares issued was $2,110 million.

(b) Capital reserves

$ million	Reserve fund	Net unrealised gains reserve	Currency translation reserve	Capital redemption reserve	Hedging reserve	Total
At 1 January 2007	38	-	228	-	-	266
Unrealised gain on available for sale investments	-	1,595	-	-	-	1,595
Currency translation differences	-	-	223	-	-	223
Purchase of Company's issued share capital	-	-	-	4	-	4
At 31 December 2007	38	1,595	451	4	-	2,088
Unrealised gain on available for sale investments	-	1,041	-	-	-	1,041
Impairment of associate recognised against unrealised gain on available for sale investment in equity	-	(2,636)	-	-	-	(2,636)
Share losses of associate recognised in equity	-	(2)	(1)	-	(8)	(11)
Movement in cash flow hedges	-	-	-	-	1	1
Currency translation differences	-	-	(36)	-	-	(36)
Purchase of Company's issued share capital	-	-	-	2	-	2
At 31 December 2008	**38**	**(2)**	**414**	**6**	**(7)**	**449**

(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.

(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.

(iv) Capital redemption reserve
As a result of the share buy-back programme, transfers are made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

(v) Hedging reserve
The hedging reserve is used to record the fair value movements of derivative financial instruments that have been designated as cash flow hedges.

13. BORROWINGS

$ million	Maturity	Average interest rate during the year	Currency of denomination	Current $ million	Non-current $ million	Total $ million
31 December 2008						
Pre-export finance facility – US$ LIBOR +1.25%	2013	3.92%	US dollar	**429**	**1,650**	**2,079**
Revolving trade finance facility – EURIBOR +1.45%	2010	4.74%	Euro	**69**	**52**	**121**
				498	**1,702**	**2,200**
31 December 2007						
Revolving trade finance facility – EURIBOR +1.45%	2010	5.61%	Euro	-	196	196
Halyk Bank loan – fixed at 11.67%	2008	11.67%	US dollar	2	-	2
				2	196	198

Pre-export finance facility
On 29 February 2008 Kazakhmys Finance PLC, a wholly owned subsidiary of the Company, signed a five year pre-export finance facility of $2,100 million with a syndicate of banks to be used for general corporate purposes, including the acquisition of the Ekibastuz power plant and Maikuben West coal mine and incremental purchases of shares in ENRC. As at 31 December 2008, the facility was fully drawn. The loan is secured on the value of copper sales contracts with certain designated customers. Monthly loan repayments will commence in March 2009 through to February 2013 following a one year availability period. Arrangement fees with an amortised cost as at 31 December 2008 of $21 million (gross cost before amortisation of $26 million) have been netted off against these borrowings in accordance with IAS 39. Interest is payable on the drawn balance at a rate of US$ LIBOR + 1.25%. Kazakhmys PLC, Kazakhmys LLC and Kazakhmys Sales Ltd act as guarantors of the loan. The pre-export finance facility contains change of control clauses.

Revolving trade finance facility
In May 2006 MKM entered into a revolving trade finance facility with a syndicate of banks for a four year loan of up to €230 million to repay borrowings from Dresden Bank and intercompany balances due to Kazakhmys LLC, and for general working capital purposes. Interest is payable on the drawn balance at a rate of EURIBOR + 1.45%. Monthly loan repayments will commence in June 2009 through to May 2010. The loan is secured over the inventories and receivables of MKM.

Revolving credit facility
On 26 August 2008 Kazakhmys Finance PLC signed a $200 million revolving credit facility with a group of banks for general corporate purposes and to provide standby liquidity. Of the facility, $150 million has been extended to 31 March 2010 with the option to extend for an additional year, subject to agreement with the banks. At 31 December 2008, the facility was undrawn.

Undrawn facilities
The Group had the following undrawn committed borrowing facilities in place:

$ million	**2008**	2007
Credit lines	**302**	287

14. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

$ million	2008	2007
Profit before taxation	**1,086**	2,026
Interest income	**(23)**	(94)
Interest expense	**66**	14
Depreciation and depletion	**346**	261
Amortisation	**3**	3
Share of profits from associate	**(255)**	-
Impairment losses	**400**	30
Unrealised foreign exchange loss	**2**	45
Gain on disposal of investments	**(5)**	(1)
Loss/(gain) on disposal of property, plant and equipment	**2**	(2)
Operating cash flows before changes in working capital and provisions	**1,622**	2,282
Increase in inventories	**(4)**	(31)
Increase in prepayments and other current assets	**(21)**	(100)
Decrease/(increase) in trade and other receivables	**91**	(46)
Increase in employee benefits	**3**	3
Increase in provisions	**7**	15
Increase/(decrease) in trade and other payables	**54**	(123)
Cash flows from operations before interest, income taxes and dividends from associate	**1,752**	2,000

Non-cash transaction

As stated in note 12(a), in July 2008 the Company issued 80,286,050 ordinary shares of 20 pence each to the Government in exchange for 98,607,884 shares in ENRC. The share price of the Company as at the date of the share issue was £13.17 per share, and the market value of the shares issued was $2,110 million. This represents a non-cash transaction for the purposes of the consolidated cash flow statement.

15. MOVEMENT IN NET LIQUID FUNDS/(DEBT)

$ million	At 1 January 2008	Business acquisition	Cash flow[1]	Net exchange translation	**At 31 December 2008**
Cash and cash equivalents	439	-	101	-	**540**
Current investments	57	-	(25)	-	**32**
Borrowings	(198)	(159)	(1,854)	11	**(2,200)**
Net liquid funds/(debt)	298	(159)	(1,778)	11	**(1,628)**

$ million	At 1 January 2007	Business acquisition	Cash flow[1]	Net exchange translation	Other non-cash movements[2]	At 31 December 2007
Cash and cash equivalents	786	-	(386)	39	-	439
Current investments	1,237	-	(1,184)	45	(41)	57
Borrowings	(277)	(6)	112	-	(27)	(198)
Net liquid funds/(debt)	1,746	(6)	(1,458)	84	(68)	298

1 Cash flow includes cash and cash equivalents acquired through business acquisitions.
2 Other non cash movements comprise foreign exchange losses/gains incurred by the Company's entities and recognised in the consolidated income statement.

16. EVENTS AFTER THE BALANCE SHEET DATE

(a) Completion of the AES management contract at Ekibastuz GRES-1 and Maikuben West coal mine

On 20 March 2009, the Group announced that it has agreed the early completion of the management contract with AES, so that management of the Ekibastuz GRES-1 power plant and Maikuben West coal mine will transfer to the Group. The early completion agreement includes an earnout of $80 million for the 2008 financial year payable in April 2009, and a single reduced payment of $102 million to be paid in January 2010.

(b) Revolving credit facility

On 30 March 2009, Kazakhmys Finance PLC signed an agreement with a syndicate of banks to extend $150 million of the unsecured revolving credit facility (see note 13) to 31 March 2010.