



EXTRACTING VALUE

KAZAKHMYS PLC
ANNUAL REPORT AND ACCOUNTS 2009



EXTRACTING VALUE

Kazakhmys

is a leading natural resources group with our main operations in Kazakhstan and the surrounding countries of Central Asia. Our primary operations are in copper, with significant interests in zinc, silver, gold, power generation and petroleum.

Our Focus

is to combine efficient, safe and responsible operations with the exceptional long-term growth opportunities which are available in the region – building sustainable value for the benefit of all of our stakeholders and the communities in which we operate.



www.kazakhmys.com

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Directors' Report: Business Review
BUSINESS HIGHLIGHTS

16.9Moz
of silver

182koz
of gold

149kt
of zinc in concentrate

By-product output benefited from the extraction of metals from stockpiled material and improvements in processing.

320kt

Production of copper cathode equivalent in 2009. Ahead of target, as operational efficiencies offset lower ore output.



\$2.7 billion

Major new loan facility arranged during 2009, which has secured the funding for several of the Group's growth projects. This will allow a significant increase in output in the medium term.

72US cents

Unit cost of production per pound (after by-product credits). A substantial reduction from 2008, benefiting from management action to reduce costs, changes in exchange rates and lower prices for input materials.

\$1,634million

Group EBITDA (excluding special items). A decline of 21% reflecting lower commodity prices, partially offset by an improved cost base.

\$88million

Spent on social projects in 2009. Maintaining the Group's commitment to local communities and employees.





Group EBITDA (excluding special items) (\$ million)

1,634

2009	1,634
2008	2,056
2007	2,336
2006	2,308
2005	1,074

Earnings per share based on Underlying Profit (\$)

1.13

2009	1.13
2008	2.27
2007	3.02
2006	3.00
2005	1.31



Copper cathode equivalent production from own material (kt)

320

2009	320
2008	343
2007	341
2006	368
2005	339

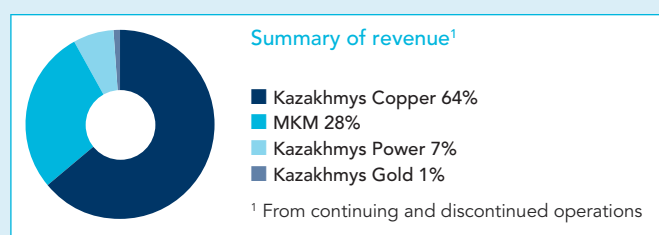
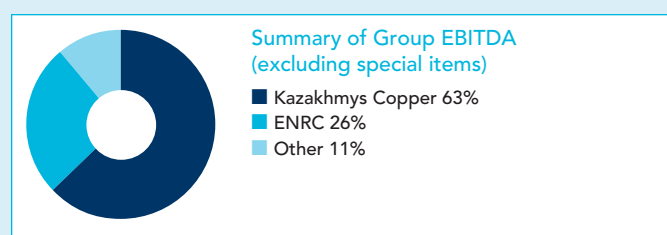


Directors' Report: Business Review

KAZAKHMYS AT A GLANCE

Our core business is the production and sale of copper and we operate a fully integrated process from mining ore through to the production of finished copper metal. Kazakhmys is the 10th largest producer of copper in the world. The production and sale of finished copper represents around 70% of the Group's mining revenue.

We also own a 26% stake in the mining company ENRC, worth \$4.9 billion as at 31 December 2009.



COPPER AND OTHER METALS

PRINCIPAL OPERATIONS

Kazakhmys Copper has 15 operating mines and 10 concentrators which are spread across four regional units, Zhezkazgan, Balkhash, Karaganda and East Region. The copper mines also produce significant quantities of silver, gold and zinc as by-products. The grades of copper and mix of copper and by-products vary significantly from mine to mine.

The Group also has a Gold Division with two mines producing gold with copper as a by-product.

There are copper smelters at Balkhash and Zhezkazgan, which operate within a single smelting unit, receiving feed from the concentrators and converting it to finished cathode. Kazakhmys Copper has its own coal mines and power stations, which ensure security and cost of power supply.

The gold by-product is sold in the form of bullion and silver in the form of granules. These are produced at a precious metals refinery in Balkhash. Zinc is produced and sold as concentrate.

OUTPUT AND GROWTH PROJECTS

In 2009 the Group produced 320 kt of copper cathode from 32 MT of ore at an average grade of 1.18%. Output is likely to remain steady over the next four years, as smaller mine extensions offset declining grade and output at some of the more mature mines, particularly in the Zhezkazgan Region. Production should increase after that, as the Group has two substantial growth projects and several medium-sized projects, which are equivalent to around 60% of current output.

KEY POINTS FROM 2009

320_{kt}
of copper cathode equivalent
from own material

149_{kt}
of zinc in concentrate produced

16,938_{koz}
of silver produced, of which 16,894 koz
was by-product in the Copper Division

182_{koz}
of gold produced, of which 135 koz
was by-product in the Copper Division

OUR KEY OPERATIONS

Kazakhstan is the 9th largest country in the world, similar in size to Western Europe. Along with copper, Kazakhstan is rich in a wide variety of resources, including oil and gas, chrome, iron ore, alumina, uranium, zinc, gold and silver. The country has a strong track record in attracting Foreign Direct Investment, which since independence amounts to over \$103 billion. Kazakhstan was the first country in the former Soviet Union to receive an investment-grade credit rating.

The natural resources of Kazakhstan, and its proximity to the major global markets of China, Europe and Russia, give the country significant strategic opportunities.

CORPORATE RESPONSIBILITY

Kazakhmys is one of the largest employers in Kazakhstan with 60,000 employees and Kazakhstan revenue represents 2.5% of Kazakhstan GDP. The Group has a strong commitment to corporate responsibility, including investment in health and safety, improving its environmental record and the active support of local communities. This is set out on pages 50 to 57.



OVERVIEW

STRATEGIC REVIEW

POWER

Kazakhmys is the largest power provider in Kazakhstan, producing over 13% of national output. Within Kazakhmys Copper there are three power stations providing power to the copper facilities. There is a separate Power Division containing the Ekibastuz GRES-1 coal-fired power plant. Since February 2010 Ekibastuz GRES-1 has been jointly owned with Samruk. Three power stations provide power to the copper facilities.

Ekibastuz GRES-1 is the biggest power station in Kazakhstan and one of the largest coal power plants in the world. Five out of eight blocks at Ekibastuz GRES-1 are currently operational and between them have annual capacity of 2,500 MW. The plant is undergoing a major refurbishment to return it to its installed capacity of 4,000 MW.

This will require around \$1 billion of capital investment over the next seven years. Ownership of Ekibastuz GRES-1 ensures power supply for all our future growth projects.

Maikuben West is an open cast coal mine, producing 3.7 MT in 2009. It supplies about 25% of the required coal for Ekibastuz GRES-1, as well as supplying coal to external customers.

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ENRC

The Group owns 26% of ENRC PLC, which was worth \$4,879 million on 31 December 2009. 14.6% of the holding was purchased in October 2007, before ENRC listed on the London Stock Exchange. The rest of the holding was acquired between July and October 2008. The holding was bought at a total cost of \$3,834 million. The investment in ENRC diversifies the Group's earnings and provides strategic options.

ENRC is a mining company with its principal operations in Kazakhstan and is listed on the London Stock Exchange. The Kazchrome division is one of the largest producers of ferrochrome in the world. The iron ore division produces and sells iron ore concentrate and pellets, and the aluminium division trades alumina and produces aluminium.

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OTHER OPERATIONS

MKM

MKM, based in Hettstedt, Germany, produces refined copper products and manufactures and sells a variety of pre-finished and semi-finished copper and copper alloy products, including wires, sheets, plate strips, tubes and bars.

These are sold primarily to customers in the construction, automotive, aviation and general engineering industries through its worldwide sales team. MKM purchases its copper from independent traders. At the end of 2009, the decision was made to sell the business.

PETROLEUM

Kazakhmys Petroleum consists of the 602km² Eastern Akzhar exploration block, on the eastern fringe of the oil rich Caspian depression. Eastern Akzhar is in close proximity to the Loktibai-Kenkiyak oil pipeline and the Kenkiyak-Atyrau gas pipeline.

During 2009 analysis was made of the seismic surveys and the first two deep wells were drilled. Further drilling and analysis will be carried out in 2010.

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PERFORMANCE

RESPONSIBILITY

GOVERNANCE

FINANCIAL STATEMENTS





Directors' Report: Business Review

STRATEGIC REVIEW

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ZHEZKAZGAN COMPLEX SMELTING FACILITY

Zhezkazgan provides around 35%
of the Group's cathode output.

Directors' Report: Business Review

CHAIRMAN'S STATEMENT

DELIVERING VALUE FROM OUR OPERATIONS, AND SECURING VALUE FOR THE FUTURE

VLADIMIR KIM
Chairman



At the start of 2009 we were presented with a challenging environment. The instability in the global financial sector, which had begun in 2008, fed through to industrial activity with manufacturers uncertain about demand for their products and constrained by lack of funding. Reflecting the poor economic outlook, copper prices started 2009 at a depressed level of \$3,071 per tonne, compared to their 2008 peak of \$8,985 per tonne in July.

Against this background, the Board set two clear aims for 2009; to focus on efficiency and to conserve cash. These objectives were successfully achieved by operational management, so that despite a very challenging situation, the Group produced a very successful outcome.

Kazakhmys ended 2009 in a stronger position than it had started, toughened by the experience and with a full understanding of the importance of the value of production, rather than the volume.

SUMMARY FOR 2009 FINANCIAL YEAR

At the end of 2008, we suspended four high cost operations and set a target to produce 300 kt of copper cathode equivalent in 2009. By making full use of stockpiled material and benefiting from previous capital investment, management exceeded this target and produced 320 kt. The emphasis on efficiency and conserving cash was also seen in unit costs, which were contained at 72 US cents per pound over the year, compared to the 116 US cents per pound reported in 2008.

Over the course of 2009, copper proved to be a resilient metal. Even in the worst periods, demand from our own customers remained steady. By the time of our half-yearly results, in August 2009, the copper price had recovered to \$6,305 per tonne and finished the year at \$7,346 per tonne. Demand for copper from China, one of our principal markets, was helped by a successful government stimulus package. The key role that copper plays in a wide range of applications, and the tightness of copper supply, also assisted its price recovery during 2009.

Our realised copper price was \$5,024 per tonne in 2009 compared to \$6,714 per tonne in 2008. The lower copper price impacted revenue from continuing operations, which was \$2,404 million compared to \$3,276 million in 2008. Additional tonnage from stockpiled material and lower costs both assisted profitability, although Group EBITDA declined to \$1,634 million from \$2,056 million in 2008 due to lower commodity prices.

BALANCE SHEET AND FUNDING

The balance sheet has strengthened over the course of the year. Net cash was generated from operations of \$820 million and, shortly after the year end, we completed the sale of 50% of Ekibastuz GRES-1 to Samruk for \$681 million. These proceeds leave the Group with net debt of \$689 million from continuing operations, excluding the Power Division and MKM. We also recently arranged a loan facility of up to \$2.7 billion, which places the Group in a strong position to deliver its growth projects.

STRATEGY

Our long-term strategy remains the same as that set at our Listing in 2005 – to optimise the performance of our assets, deliver our growth projects and take advantage of natural resource opportunities in Central Asia.

In 2009, we focused on the first part of our strategy with considerable success, as seen in these results. In 2010, there is still much work to be done on optimising and improving our efficiency, and we are in a good position to deliver on the second part of our strategy, and move our growth projects forward. We will continue to evaluate other opportunities for acquisition and development, the third part of our strategy, as they become available.

WELL POSITIONED FOR KEY MARKETS

OUR COMPETITIVE ADVANTAGE

Key copper trade flows and markets



Kazakhstan has several key advantages for future development. The land is naturally resource rich, with a wide range of commercially extractable deposits. The location and transport links are ideal for supplying several key markets.

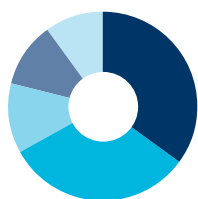
The Group sells its copper to Europe and China, each of which represents around 30% of global demand, and China is the fastest growing market. Kazakhmys has long established relationships in each region, generally dealing directly with end users. Material to China is transported by rail, whereas material for Europe is sailed to the Black Sea.

Precious metals are sold to Europe and zinc is sold mainly around Central Asia and China. Power is mainly used in the domestic market, although there are significant sales to Russia.

The copper price fell in 2008, as concerns grew over the global economy. Copper started 2009 at \$3,071 per tonne, but had recovered to \$7,346 per tonne by the end of the year. Copper fared better than many metals in 2009. Copper is used in a wide range of applications and items, from small appliances to major infrastructure projects. It remains the first choice for conducting electricity. Demand from China, now the largest market for copper, remained firm in 2009, assisted by successful stimulus packages.

We sign annual contracts with our customers each year, where we agree volume, although the underlying price is based on the LME at the time of delivery. For 2010, we have commitments from customers for around 90% of our production target, which reflects continued strong demand for our product.

KEY MARKET DATA



Global copper consumption by market sector

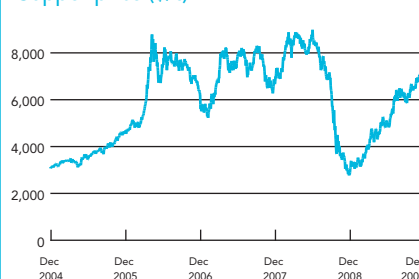
- Construction 35%
- Electronic products 32%
- Industrial machinery 12%
- Transport 11%
- Consumer products 10%

Source: Brook Hunt

Copper overview

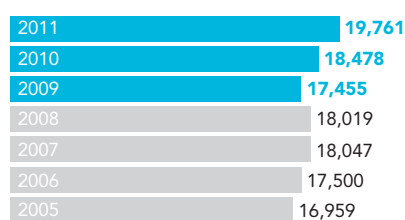
- Copper is one of the best heat and electricity conductors among metals
 - It is 100% recyclable, and can be recycled an infinite number of times
 - It is corrosion resistant
- Copper consumption can be divided into three main product groups: copper wire rod, copper products and copper alloy products. Copper and copper alloy products are consumed in five main sectors: construction, electrical and electronic products, industrial machinery and equipment, transportation equipment and consumer goods.

Copper price (\$/t)



Source: Metalprices.com

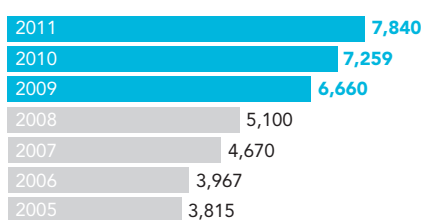
Global refined copper consumption (kt)



Actual Estimated

Source: Brook Hunt

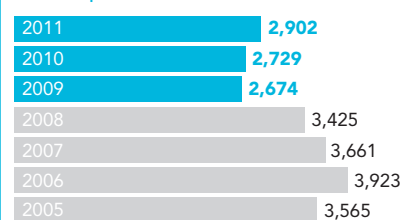
Chinese refined copper consumption (kt)



Actual Estimated

Source: Brook Hunt

Western Europe refined copper consumption (kt)



Actual Estimated

Source: Brook Hunt

Directors' Report: Business Review

CHAIRMAN'S STATEMENT CONTINUED

GROWTH PROJECTS

The Group has two major growth projects at Aktogay and Bozshakol, where pre-feasibility studies were completed in 2009. There is also a series of mid-sized projects which we are planning. Once commissioned, all these projects should lead to a significant increase in copper output within the next four years.

Funding has now been established for Bozshakol, through our new loan facility, and the feasibility study should be completed by the end of 2010. The pre-feasibility study showed the project making attractive returns and Bozshakol should be able to move into first production by early 2014. The feasibility study for Aktogay will commence as soon as we secure funding for the project.

ENRC HOLDING

We continue to be the largest shareholder in ENRC PLC, with a holding of 26%. ENRC is a major mining company, listed in London, but principally operating in Kazakhstan. ENRC has a different suite of metals from us, producing iron ore, aluminium and ferrochrome. We believe that this holding diversifies our earnings and presents us with strategic options.

POWER DIVISION

At the end of 2009, we announced the sale of 50% of Ekibastuz GRES-1 to Samruk. When we purchased Ekibastuz GRES-1, we stated that we would bring in a partner and Samruk is well suited in many respects. Samruk will share the capital risk of investment, provide access to coal supplies and they have a sound understanding of the sector.

Output declined at the start of the year, with the economic downturn reducing demand for power. Demand recovered sharply during the year and in the future Ekibastuz GRES-1 will benefit from rising demand in Kazakhstan and Russia. Through our 50% ownership of Ekibastuz GRES-1, we have secured the necessary power supply for all our future growth projects.

Shared with our new partner, we will be investing around \$1 billion over the next seven years to restore the power station to its original 4,000 MW capacity. In 2009, higher ceiling power tariffs were set by the Government for the next six years, which will allow Ekibastuz GRES-1 to produce the cash required for reinvestment and provide sufficient economic return to justify this level of investment.

MKM

MKM is a downstream copper fabricating business in Germany which we acquired in 2004, before our Listing. MKM is a well managed business, with modern technology and some market leading positions, but it has limited synergies with our main copper mining business. The Directors have, therefore, decided to dispose of the business and early stage discussions with a number of potential buyers are in progress.

SALES

Each year we contract between 80% and 90% of our anticipated sales of copper and these contracts are evenly divided between Europe and China. Kazakhstan is an ideal location for serving these two major markets and remains a strength for the Group. We have an established group of customers in both markets and the value of these relationships was apparent over the past year. I should like to thank our customers for their support and we look forward to growing with them.

CORPORATE RESPONSIBILITY

The success of the Group is principally due to the efforts of our employees and this has been particularly evident in 2009. I should like to thank them for their assistance in this challenging year.

On pages 50 to 57 of this report we set out further information on our corporate responsibility. We continue to develop our reporting in the key areas of health and safety, environment and community. Kazakhmys has a strong commitment to support the local communities where we operate and this will be maintained. In 2009, we spent around \$88 million on social investment, the largest programme of its kind in Kazakhstan. This expenditure included the completion of a major public college in Astana and our own second in-house training facility at Balkhash.

I regret to inform you that in 2009 there were 15 fatalities. This is the lowest level that there has been since Listing and there are some signs of actions in this area starting to have an impact, although the challenges remain substantial. The Board is committed to zero fatalities and will provide whatever investment in education or equipment is required.

THE BOARD

During 2009, two non-executive Directors were appointed to the Board, Peter Hickson and Clinton Dines. Peter brings considerable experience of the power industry whilst Clinton has worked in the resource industry in China for 30 years. Our Board not only has an exceptional range of experience, but each of our non-executive Directors has worked in an area relevant to the Group. This breadth and depth of knowledge is of great assistance and I should like to thank them for their continued guidance over the past year.

SHARE PRICE AND DIVIDENDS

The recovery of the copper price over 2009 and the success of our own actions led to a sharp rise in our share price, from 231 pence at the beginning of the year to 1,328 pence at the end. This 475% increase made Kazakhmys shares the strongest performer in the FTSE 100 index during 2009.

The dividend policy followed by the Board remains the same as that set at the time of Listing – to take into account the profitability of the business, as well as its cash flows and growth requirements. With the strengthening of the balance sheet and the recovery in cash flows, we believe that it is appropriate to reinstate a dividend payment. Accordingly, for the 2009 financial year, the Board is recommending a final dividend of 9.0 US cents per share.

OUTLOOK

Demand for our products remains sound and our sales contracts for 2010 have been completed. We anticipate producing just over 300 kt of copper cathode equivalent, similar to the target for 2009, and the emphasis will remain on value and profitability rather than volume. We will continue to focus on managing costs and we anticipate making good progress on our growth projects in 2010. I look forward to reporting on these next year.

A CONSISTENT STRATEGY

OUR VISION

To develop ourselves as the leading natural resources company in Central Asia, combining international best practice with the exceptional mineral opportunities available in the region.

OUR OBJECTIVE

To deliver value for shareholders and maintain a strong social commitment to our employees, the environment and the communities around us.

OUR STRATEGY

Optimise existing assets

We are developing management tools to improve the performance of our existing assets and create opportunities to raise efficiency in our operations. This ranges from procurement of equipment, improved maintenance and better planning. We believe we can reduce costs, increase yields and raise productivity.

Deliver growth projects

We will aim to replace existing reserves and deliver growth in output by investing in projects that add additional value to our portfolio. This will include extensions to our existing mines and mid-sized mine developments, along with new concentrators and concentrator upgrades. We also intend to deliver our major growth projects, Aktogay and Bozshakol.

Take advantage of natural resource opportunities in Central Asia

Actively seek out and acquire attractive, undeveloped natural resource assets in the Central Asian region. This will be achieved through exploration and by acquiring known assets.

KEY PERFORMANCE INDICATORS

The Group has six key performance indicators, which are used to measure the success of the Group. The KPIs focus on financial returns, but in order to relate to the Group's strategy, they include measurements of production, cost and capital efficiency. The Board reviews the KPIs to ensure that they are balanced, informative and relevant to the business.

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RISK FACTORS

The activities of the Group and the delivery of its strategy will always include an element of risk. The Group has a formal framework for assessing and reviewing risks to ensure that they are realistically evaluated and monitored.

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CORPORATE RESPONSIBILITY

Underpinning our strategy is a commitment to operating responsibly, taking account of our employees, the environment and the communities around us.

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Directors' Report: Business Review

CHIEF EXECUTIVE'S REVIEW

TRANSLATING ACTION INTO RESULTS ACROSS ALL OPERATIONS

OLEG NOVACHUK
Chief Executive



SUMMARY FINANCIALS FOR 2009

The financial results for 2009 were dominated by the lower price of copper. Group revenue from continuing operations was \$2,404 million, a reduction of 27% from the previous year and Group EBITDA (excluding special items) declined 21% to \$1,634 million.

The average market price over the year was \$5,164 per tonne, compared to \$6,952 per tonne in the previous year. Our average realised price, of \$5,024 per tonne, was lower than the average market price, because our production and sales were weighted to the first six months of the year.

Revenue in the Copper Division was \$2,357 million, compared to \$3,227 million in 2008, the reduction mainly being due to the lower copper price. EBITDA (excluding special items) in the Copper Division fell 36% to \$1,027 million, as the decline in the copper price and sales volumes were only partially offset by a reduction in costs.

Revenue in the Power Division was \$238 million. Sales at Ekibastuz GRES-1, on an annualised basis, were in line with the previous year. The increase in power tariffs matched the slight decline in power generated and the negative impact of the tenge devaluation.

At the start of 2009, we hedged 8.5 kt of copper sales per month for the year, around one third of our total output. The programme was put in place to protect some of our

higher cost operations, and in particular to protect employment, in the event of prolonged weakness in the copper price.

The programme offset the negative impact of copper prices falling below \$3,000 per tonne at the cost of sacrificing the upside when the price rose above \$4,000 per tonne. Given the subsequent rise in the price of copper, a loss was incurred of \$129 million. No similar transactions are in place for 2010 or beyond, as it remains our general policy to be an unhedged copper producer.

Costs in the Copper Division fell sharply in 2009. Costs were assisted by a sharp devaluation of the tenge to 150 KZT/\$ in February 2009, lower input prices and targeted action to improve efficiency. By-product credits benefited from rising prices over the course of the year. These changes led to a decline in net costs from 116 US cents per pound in 2008 to 72 US cents per pound in 2009. This achievement was significantly ahead of our net cash cost target at the start of 2009, of between 90 and 120 US cents per pound.

In 2008 the Government of Kazakhstan implemented new legislation to change tax rates from 1 January 2009. The phasing in of these new rates has since been slowed down, which is covered further in the Financial Review. The new tax regime is relatively aggressive at lower metals prices, such as those seen in 2009. There have also been some further

adverse tax impacts in the year, which have reduced EPS on Underlying Profit to \$1.13 per share, compared to \$2.27 per share in 2008.

The presentation of our reported financial numbers has changed significantly this year, which is dealt with more fully on page 36. Following the Board's decision to dispose of MKM, it is now classified as an asset held for sale and its results are included under discontinued operations. Following the sale of 50% of Ekibastuz GRES-1 in February 2010, it will in future be treated as a joint venture. Under IFRS requirements, for 2009, this business is also classified as an asset held for sale and is included within discontinued operations. Ekibastuz GRES-1 remains an important part of our Group.

COPPER DIVISION OUTPUT FOR 2009

At the start of 2009, with low copper prices and concerns over the economic outlook, we focused on controlling costs, protecting margins and maximising cashflow generation. Four high cost mines were suspended, which led to a 9% decline in ore output to 32,409 kt. Lower ore output combined with a reduction in grade, from 1.26% to 1.18%, created a 15% decrease in mined metal output.

The reduction in mined metal, however, was offset by pro-active, targeted actions such that the production of copper in own concentrate reduced by just 3% to 359 kt. These actions included improved productivity at continuing operations, the processing of stockpiled ore, the reprocessing of waste materials and higher recovery rates at the concentrators.

Production of copper cathode equivalent, our finished material, declined by 7% to 320 kt. This figure was ahead of the target of 300 kt, based on planned mine output, which we set at the beginning of 2009. The target was exceeded due to the management actions referred to previously. Sales of cathode equivalent were 341 kt, with additional volume coming from a reduction in inventory in the first half of the year. There was some rebuild of work in progress and inventory at the year end, which had been reduced to low levels during the year.

BY-PRODUCT OUTPUT FOR 2009

From our copper mines, we also produce by-products of zinc, silver and gold. By-product output in 2009 exceeded 2008, as the reduction in by-product metals mined during the year was offset by significant contributions from the processing of stockpiled polymetallic ores, higher recovery rates at the concentrators and lower levels of work in progress.

POWER DIVISION OUTPUT FOR 2009

Annual net power generated at Ekibastuz GRES-1 in 2009 fell 6.4% from 2008, but the recovery through the year was dramatic. The demand for electricity declined significantly at the end of 2008 and remained low at the beginning of 2009. A moderate improvement in demand started in April 2009 and the trend strengthened during the rest of the year, led by rising industrial output in Kazakhstan and Russia and some shutdowns at other generators.

There is a tight supply demand balance for power in Kazakhstan and the sector needs investment to meet growing future demand for electricity. The Government, recognising this need, increased the ceiling tariffs for the years 2009 to 2015, in order to raise cash flows and allow greater investment in the sector. The tariff at Ekibastuz GRES-1 was an average of 3.19 KZT/kWh in 2009, compared to 2.42 KZT/kWh in 2008. Domestic tariffs finished the year in line with the ceiling tariff of 3.60 KZT/kWh.

KAZAKHMY'S GOLD OUTPUT FOR 2009 AND OUTLOOK

As anticipated, there was a decrease in ore extraction and metal production in the Gold Division during 2009. Zhaima mine closed in September 2008, and the grade was lower at the continuing operations of Mizek and Mukur.

The new Bozymchak gold/copper project in Kyrgyzstan has moved to full development stage, following the allocation of \$100 million funding by the China Development Bank and Samruk.

Bozymchak should move into production by the end of 2010 and has a potential annual output of 30 koz of gold and 7 kt of copper. Subject to completing various technicalities, it is likely that the assets within the Gold Division will be absorbed within the Copper Division.

KAZAKHMY'S PETROLEUM

Kazakhmys Petroleum has continued its drilling and testing programme at the Eastern Akzhar exploration block in western Kazakhstan. Remedial work is being carried out at the first two deep wells in order to continue testing, which encountered some technical difficulties during 2009. The drilling of a third deep well is planned to be completed in the first half of 2010.

The results of 3D seismic data covering the northwestern part of the licensed area will be available in early 2010 and it is expected that these results will be used to identify prospective locations for future deep well drilling. By the end of 2010, sufficient data should have been collected from the wells to give a fuller economic evaluation of the field.

OUR STRATEGY IN ACTION

IMPROVING EFFICIENCY, INCREASING PRODUCTIVITY

As part of our optimisation programme, we have reorganised our smelters to encourage cost control and improve recovery rates. Zhezkazgan and Balkhash smelters now work under a single specialist metallurgical unit. These changes have streamlined the process of moving material from concentrators to smelters. There has also been a complete rebuilding of one of the furnaces at Zhezkazgan and this will now be commissioned and the second furnace will undergo a similar refurbishment. These initiatives will save costs and improve quality.



OUR STRATEGY IN ACTION

INVESTING FOR GROWTH

Over the past three years Kazakhmys has invested around \$250 million in new capital mining equipment. Around 50% of the fleet is under three years old. This extensive investment programme has had an impact on output over the past year as new equipment has removed bottlenecks and raised efficiencies. With so much investment in new equipment, work is taking place to improve maintenance scheduling, both to increase availability and ensure a longer life.



ENRC

Our 26% holding in ENRC PLC was worth \$4,879 million at the end of 2009, compared to \$1,600 million at the start of the year. The increase in value reflects the recovery in commodity markets. ENRC is principally involved in ferrochrome, iron ore and alumina. During the year, ENRC made further investments outside Central Asia including the purchase of Central African Mining and Exploration Company PLC, who have assets in Central and Southern Africa. These acquisitions potentially give ENRC greater exposure to base metals.

FUNDING

Over the course of the year we generated cash from operations including dividends received from ENRC PLC, before taxation and capital expenditure, of \$1,084 million. In March 2009, we commenced capital repayments on our principal \$2.1 billion five year debt facility, at the rate of \$44 million per month. At the end of 2009, \$1,662 million was outstanding on this facility and, after cash and cash equivalents, there was net debt of \$689 million relating to continuing operations.

Interest on our principal facility is 1.25% over US\$ LIBOR. In 2009, a portion of the interest payments were fixed via interest rate swaps to reduce volatility in our cash flows.

At the end of 2009, the Group was allocated up to \$2.7 billion from a loan arranged between the China Development Bank and Samruk. The first utilisation under the facility was

drawn on 17 March 2010 for \$300 million. Interest is payable on funds drawn at a rate of 4.80% over US\$ LIBOR. This facility has several attractions, being long term, flexible in drawing and at a competitive rate.

OUTLOOK FOR COPPER DIVISION IN 2010

Mined ore output should rise slightly in 2010, but this will be offset by a general decline in grades. Given that mined metal output will be at a similar level to 2009, we are setting the same target for output of just over 300 kt of copper cathode equivalent. There is some stockpiled material, but not at the scale of 2009.

The four suspended mines will not be brought back into production in 2010. The most significant of these is Akbastau, where we are intending to build a concentrator close to the mine, in order to reduce transportation costs and maximise the value of the ore reserve. With funding now available from our new facility, we are now carrying out preliminary economic studies.

Gross cash costs are likely to increase next year given rising input costs and lower grades. Inflation in Kazakhstan is currently just under 10%, which will put some pressure on domestic costs. The Kazakhstan tenge trades in a fixed band around the US dollar, which has recently been widened and could allow the currency to strengthen against the US dollar, again putting pressure on costs. There is unlikely to be further significant

production of by-products from stockpiled material, so that the by-product credit will depend on mined metal and pricing.

COPPER GROWTH PROJECTS

The Group has two major copper growth projects, Aktogay and Bozshakol. These have both successfully completed their pre-feasibility stage. Both projects showed economic value on conservative pricing assumptions, with significant net present value at Bozshakol.

As mentioned last year, we delayed the move to feasibility stage until we had identified partners and external sources of funding for the projects. With the loan from the China Development Bank and Samruk, we now have committed funding for Bozshakol and the feasibility study commenced in January 2010. The study contractor is Aker Solutions. The feasibility study should be completed by the end of 2010, allowing the project to move into development in 2011 with first production of copper in concentrate by early 2014. Some items of large equipment are likely to be ordered towards the end of 2010. The total capital investment will be around \$1.5 to \$2 billion, but the feasibility study will define this figure more accurately.

The funding facility from the China Development Bank and Samruk will allow the consideration and potential development of other projects including the underground mine at Kosmurun, the new concentrator at

Akbastau, the expansion of Zhomart and the development of the underground mine at Abyz.

We continue to look at funding alternatives for Aktogay and anticipate that progress will be achieved during the current financial year. At that point, the project will then move to feasibility study.

All of these future copper projects potentially represent over two-thirds of our current production. We are, therefore, in a position not only to replace the decline in our current production, but to significantly increase output in the medium term.

KAZAKHMY'S POWER OUTLOOK FOR 2010 AND FUTURE EXPANSION

With the overhaul of Unit 5 in 2009, the plant now has a capacity of 2,470 MW. During 2010, Unit 3 will undergo a major overhaul and we will start the complete rehabilitation of Unit 8. Ekibastuz GRES-1 will see a significant change in capacity when Unit 8 is completed in 2013. If demand continues to be strong, then the refurbishment of one of the other two dormant units may be brought forward.

As mentioned above, tariffs averaged 3.19 KZT/kWh, including Russian sales, which were at a lower price than sales in Kazakhstan. The ceiling for domestic sales in 2010 is 4.68 KZT/kWh and it is anticipated that the

price will reach that level over the course of the year for domestic sales, though some power will still be exported at a lower price.

CONCLUSION

In 2010, the cost environment is expected to be more challenging than in 2009 and we will need to maintain output while controlling costs. The receipt of the loan facility from Samruk and the China Development Bank has transformed our ability to pursue our growth projects and we are now in an excellent position to take forward some of the largest and lowest-risk copper projects that are currently available globally.

OUR STRATEGY IN ACTION

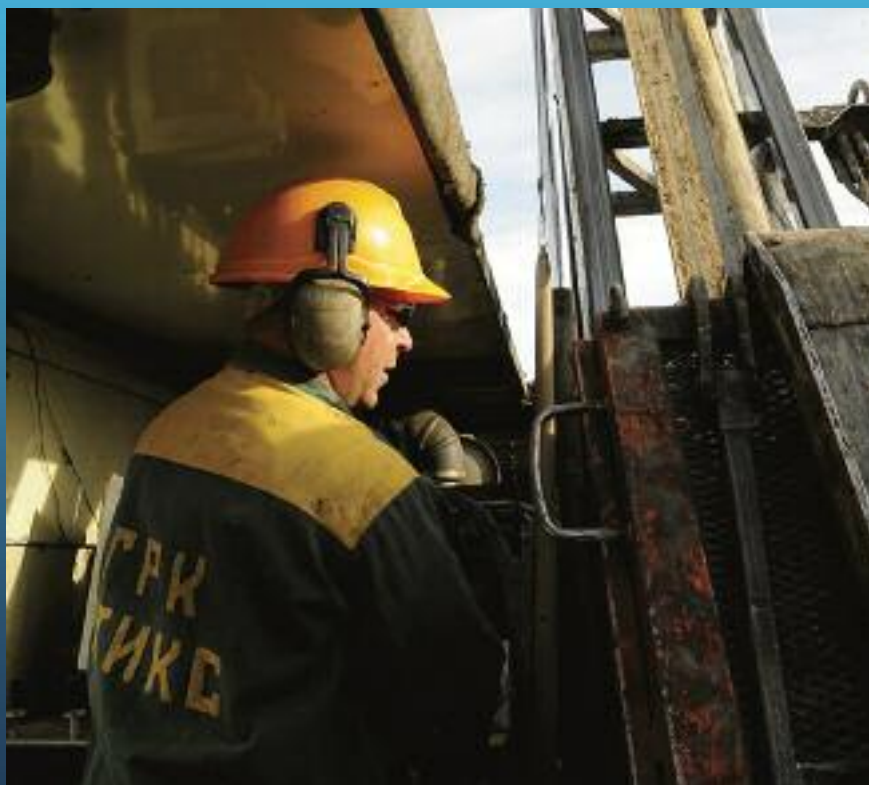
REALISING OUR GROWTH POTENTIAL

In 2009 the Group arranged a debt facility of \$2.7 billion, which will be used to develop our significant growth projects. This is a fifteen year debt facility, which is ideally structured for the development of long-life mining assets. The assets we will be focusing on include the major copper growth project at Bozshakol and the copper gold project at Bozymchak.

The facility will also be used for a range of mid-sized copper developments and new processing plants. Together these projects will add substantial additional production and, given their location and the existing infrastructure, they are some of the lowest-risk copper developments in progress in the world.

\$2.7 billion

to develop significant growth projects







Directors' Report: Business Review

PERFORMANCE

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OPTIMISING PERFORMANCE THROUGH INVESTMENT OF ASSETS

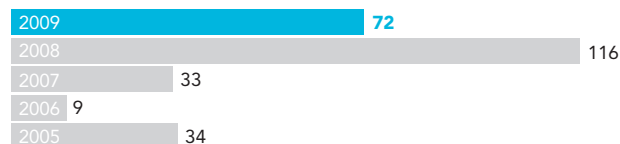
Caterpillar trucks move blasted rock from the mine face at Zhezkazgan. In 2009 we ordered a total of 42 Caterpillar trucks, as part of our investment programme.

MEASURING OUR PROGRESS THROUGH KPIs

The Group delivers its strategy against the objectives set out on page 11. It also uses a range of performance indicators to measure the growth and performance of the Group over time.

Cash costs of copper after by-product credits (US\$/lb)

72



Relevance to our strategy

Measures the performance of the Group in maintaining its low-cost base whilst maximising revenues through the sale of by-products.

How we measure it

The total of cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathode equivalent sales.

Performance in 2009

In 2009 gross costs benefited from lower input costs, currency changes and cost actions taken by management. By-product credits were helped by higher prices and production from stockpiled inventories.

Copper cathode equivalent production from own material (kt)

320



Relevance to our strategy

We consider this measure as the main operational indicator as copper is a homogeneous product with a worldwide market.

How we measure it

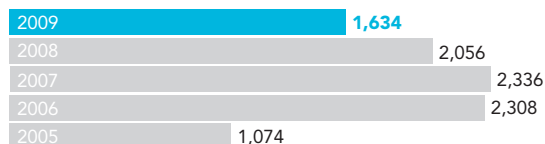
Copper cathode equivalent produced from own ore either as refined copper cathodes or as recoverable copper in concentrate or residues.

Performance in 2009

Suspension of high cost mines reduced output, but this was partly offset by increased production from operating mines and production from stockpiled materials.

Group EBITDA (excluding special items) (\$ million)

1,634



Relevance to our strategy

We regard this as a measure of the underlying profitability of the Group.

How we measure it

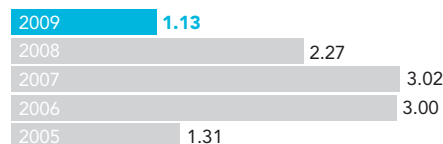
EBITDA is earnings before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax as adjusted for special items and including the share of EBITDA of the associate.

Performance in 2009

EBITDA was dominated by lower commodity prices, partially offset by a reduction in costs and an increased share of earnings from ENRC.

Earnings per share based on Underlying Profit (\$)

1.13



Relevance to our strategy

EPS tells how much net profit we have generated and measures the return to our equity shareholders.

How we measure it

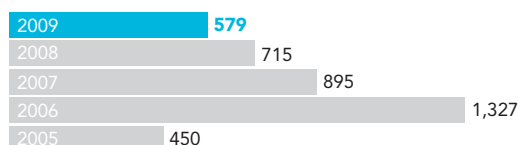
Profit before special items and other non-recurring or variable non-trading items, and their resulting taxation and minority interest impact, divided by the weighted average number of ordinary shares in issue during the period.

Performance in 2009

EPS was affected by lower commodity prices, a relatively high tax rate in 2009 and an increased number of shares in issue. This was partially offset by lower costs.

Free Cash Flow (\$ million)

579



Relevance to our strategy

We monitor the Group's cash flows which can be used to fund returns to shareholders and invest in the future growth and development of the business.

How we measure it

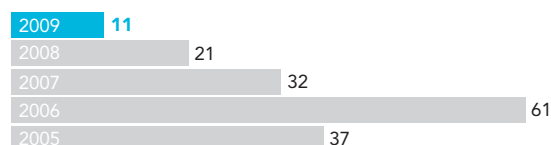
Net cash flow from operating activities less sustaining capital expenditure on tangible and intangible assets.

Performance in 2009

Similar to EBITDA, Free Cash Flow was impacted by lower commodity prices, offset by lower levels of capital expenditure and taxation during the year.

Return on capital employed (ROCE) (%)

11



Relevance to our strategy

We monitor how efficiently we use our capital with the objective of delivering ROCE in excess of our weighted average cost of capital.

How we measure it

Profit before taxation and finance items, excluding special items, as a percentage of the average of opening and closing capital employed.

Performance in 2009

ROCE has decreased primarily due to lower earnings from managed businesses and the impact of equity accounting for ENRC.

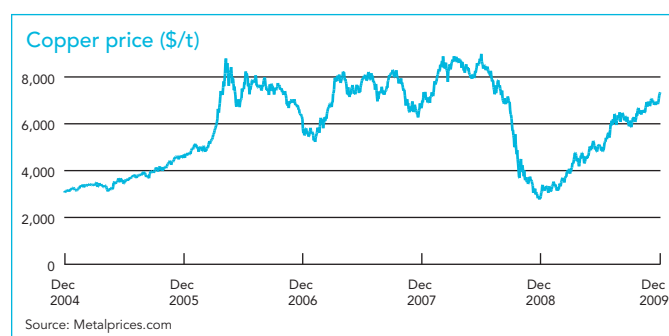
Directors' Report: Business Review

MARKET AND OPERATIONS REVIEW

Copper: Market overview

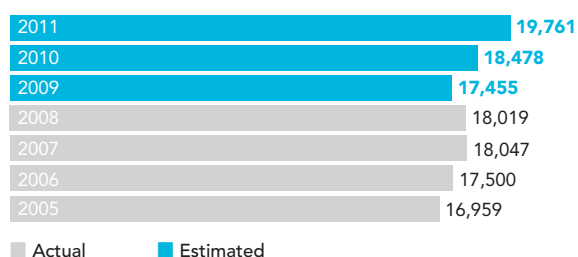
Kazakhmys' principal product is copper, which was one of the stronger performing LME quoted metals in 2009, rising 139% across the year. The LME copper price climbed from a low of \$3,051 per tonne in late January 2009 to a high of \$7,346 per tonne on 31 December 2009. The average price during the year was \$5,164 per tonne, 26% below the average of \$6,952 per tonne in 2008.

The recovery in the copper price was driven by a number of factors which included strong demand from China which built up copper inventories and experienced increased industrial activity driven by economic growth and government investment. Prices were also supported by the improvement in the global economic environment in the second half of 2009, and continued weakness in the US dollar.



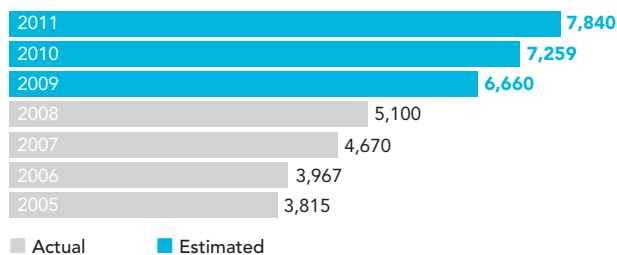
Despite the strong demand for copper from China in 2009, the global consumption of refined copper is estimated to have decreased by 3.1% to 17.5 MT. China's refined copper consumption is forecast to have increased by 1.6 MT to 6.7 MT in 2009, with refined copper consumption expected to have declined in the rest of the world by 1.1 MT. This reduction included a 23% fall in consumption in Western Europe, Japan and North America.

Global refined copper consumption (kt)



Given Kazakhmys' proximity to China, a significant portion of copper cathode production is supplied to the Chinese market. The refined copper demand prospects for China in 2010 are positive with an estimated increase in consumption of 9% to 7.3 MT as economic growth continues. Chinese refined copper production is expected to be 5.3 MT in 2010, implying an import requirement of 2.0 MT.

Chinese refined copper consumption (kt)

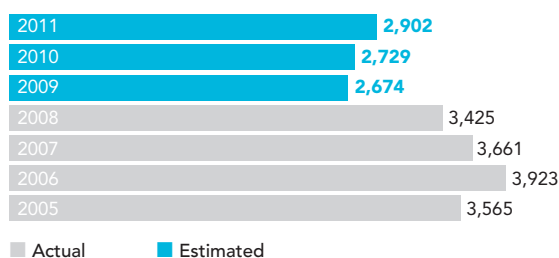


Kazakhmys Copper also has exposure to the Western European market where the construction sector remained depressed and car production volumes fell during 2009. Refined copper consumption in Western Europe is estimated to have contracted by 22% in 2009.

With most of the major Western European economies returning to growth in late 2009 and with a recovery in demand from the power sector, refined copper consumption is expected to grow 2.1% to 2.7 MT in 2010. The growth rate reflects the slower economic recovery expected in the mature Western European markets as contrasted with the continued strength of the economic growth in China.

Kazakhmys Copper will maintain a presence in both the Chinese and European markets by selling to traders and end users in 2010. Kazakhmys Copper has contracted the majority of its 2010 copper cathode and rod production under annual agreements. The pricing of sales is based on the LME price plus a premium to reflect the terms of trade.

Western Europe refined copper consumption (kt)



Zinc: Market overview

Following the decline in prices during 2008, zinc prices remained depressed in the first quarter of 2009 with an average LME price of \$1,174 per tonne. The low prices reflect the estimated 23% decline in the worldwide steel market excluding China, due to weakness in the construction and automobile sectors around the world.

From April 2009 the zinc price climbed steadily, with the LME average price for the year being \$1,659 per tonne, an 11% decrease from the 2008 average of \$1,870 per tonne. The improvement in zinc prices from April 2009 reflected the tightening of supply with mine production cutbacks in early 2009 and as China's zinc consumption grew by 20%, broadly in line with the growth in demand for steel in the country.



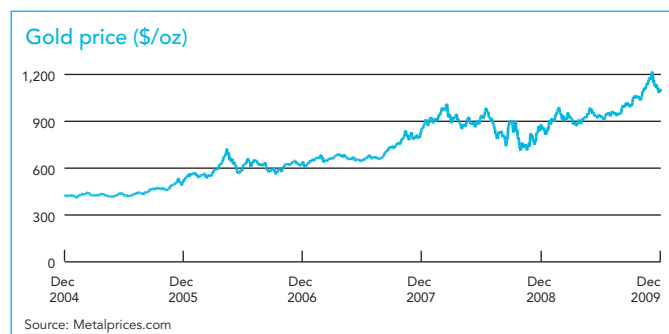
While zinc prices trended higher during 2009, LME zinc inventories grew by 93% from 253 kt to 488 kt at the end of the year and zinc consumption is estimated to have declined from 11.5 MT in 2008 to 11.0 MT in 2009. A market surplus in zinc is forecast in 2010, although a rebound in worldwide steel production is expected to support prices as restocking takes place, along with growing demand from developing economies.

In 2010, Kazakhmys will sell zinc concentrate within Kazakhstan and into China. The pricing for zinc concentrate is based on the LME price at the time of delivery.

Precious metals: Market overview

GOLD

During 2009, gold prices were mainly supported by investment demand with the metal maintaining its status as a safe haven during periods of economic uncertainty. This was reflected in the gold price which rose from \$875 per ounce at the beginning of 2009 to trade above \$1,000 per ounce from October 2009, finishing the year at \$1,104 per ounce.



Investment demand is forecast to be the main driver of gold prices in 2010 with the US dollar expected to be weak, real interest rates remaining low, and concerns persisting around rising inflation. Given the dependence on investment demand, the gold price could be vulnerable to changes in investor sentiment.

In 2010, Kazakhmys Copper will sell gold to traders based in Europe under annual contracts based on the LBMA price at the time of delivery.

SILVER

Silver prices in 2009, like gold, were supported by investment demand, a weak US dollar and concerns around inflation. These factors largely offset the global slowdown in industrial production which reduced the demand for silver used in industrial and manufacturing processes.

Silver prices commenced the year at \$11.1 per ounce and ended at \$17.0 per ounce, reaching a high of \$19.2 per ounce in early December. The silver market is projected to record a 49 Moz surplus in 2009, with a similar surplus forecast in 2010.



Silver is expected to benefit from an improvement in industrial demand in 2010 as the global economy returns to growth. Due to silver's exposure to investment demand, the silver price could be vulnerable to changes in investor sentiment.

Kazakhmys will sell its silver product to both end users and traders based in Europe in 2010, principally under annual contracts based on the LBMA price at the time of delivery.

MARKET AND OPERATIONS REVIEW CONTINUED

AT A GLANCE

KAZAKHMYS COPPER

Kazakhmys Copper includes principle by-products of zinc, gold and silver



OPERATIONS:

Mines ¹ :	19
Concentrators:	10
Smelters ¹ :	2 copper, 1 precious metals, 1 zinc, 1 copper rod
Railways:	1,000 km
Power stations:	3

PRODUCTION OVERVIEW:

Ore output:	32,409 kt
Total own copper cathode equivalent:	320 kt

FINANCIAL OVERVIEW:

Sales revenues:	\$2,357 million
EBITDA (excluding special items):	\$1,027 million

¹ Four mines and the zinc smelter are currently suspended.

Copper production summary

kt (unless otherwise stated)	2009	2008
Ore output	32,409	35,675
Copper grade (%)	1.18	1.26
Copper in concentrate from own production	359	371
Copper cathodes from own concentrate	298	340
Copper cathode equivalent from own concentrate ¹	320	343
Copper cathodes from purchased concentrate	6	38
Copper rod production	10	48

¹ Includes copper sold as concentrate and cathode converted to rods.

At the beginning of 2009, Kazakhmys Copper focused on operational efficiencies to protect profit margins in response to the lower commodity price environment and the uncertain economic outlook. A number of high cost mines were suspended, one of the Zhezkazgan smelter furnaces was closed for maintenance and stockpiled material, built-up in previous periods, was processed during the year.

Ore extraction decreased by 9% in 2009 compared to 2008 reflecting the reduction in the number of operating mines. The high cost mines suspended were Belousovsky, Konyrat, North Nurkazgan and sections

of the West and North mines. The Kosmurun mine closed in the fourth quarter of 2008 due to the depletion of the open pit with plans for the mine to move underground currently being developed.

The main factor behind the lower production volumes was the closure of the Akbastau mine, which, in 2008, produced 2.4 MT of ore containing 59 kt of copper. The mine was suspended as the ore body is being preserved ahead of the construction of a new concentrator at the site which will reduce ore transportation costs.

The loss of ore output from the mine closures was partially offset by the opening of the West Nurkazgan underground mine in early 2009 and an improved performance from the South mine following operational difficulties in the first half of 2008.

The copper grade was lower at 1.18% mainly due to no production taking place at the high grade Akbastau mine. The impact of the mine closure was partially offset by the average copper grade at the Zhomart mine increasing to 1.80% up from 1.39% in 2008 and the suspension of the low grade Konyrat mine.

Own copper in concentrate production was 359 kt, only 3% below 2008, despite a 15% reduction in copper in ore mined due to the lower ore volumes extracted and decline in copper grade. Production benefited from the processing of stockpiled materials and an improved concentrator recovery rate for copper of 86.0%, up from 84.6% in 2008. During the year, Kazakhmys Copper carried out upgrade work on several concentrators, including Nurkazgan and Karagaily, raising their copper and by-product recovery rates.

In 2009, 22.7 kt of copper in concentrate was sold to third parties, principally into China, whilst in the prior year, sales of only 3.5 kt took place. The sales to China were to test the marketplace and, following a trial period, were largely stopped in July with concentrate produced thereafter processed internally into cathodes. Going forward, copper in concentrate sales may take place periodically, but due to Kazakhmys Copper maintaining sufficient smelting capacity, this is not expected to be on a large scale. One of the two Zhezkazgan furnaces was closed in early 2009 so excess concentrate from the region has been shipped to the Balkhash smelter for processing.

Own copper cathode equivalent production, which includes copper in concentrate sales, fell by 7% reflecting the lower concentrate production. In the fourth quarter of 2009, there was a build-up of copper in concentrate work in progress following a reduction earlier in the year, which is expected to be smelted into cathode during 2010. In the prior year, spare smelting capacity was utilised by the purchase of third party produced copper concentrate, however this largely ceased in 2009 and the reported production from purchased concentrate largely represents the rundown of inventory brought forward from the prior year.

The processing of cathodes into rod is dependent on market demand in China, which in 2009 did not generate sufficient premiums. The small volume of rod produced and sold in the year was to local customers in Kazakhstan.

In 2010, the average ore grade is expected to be lower, a combination of raised ore output from lower copper content mines and a drop in ore grade at certain mines. Overall ore output should rise, which, together with the processing of stockpiled copper in concentrate from the fourth quarter of 2009, is expected to result in own cathode equivalent output of at least 300 kt. As the premiums available for copper rod sales have improved on the prior year, approximately 10% of cathode production is contracted to be processed further into rods, for sale into China and to local customers.

The volume of third party copper concentrate processed at the smelters by Kazakhmys Copper is expected to be minimal in 2010.

Zinc production summary

kt (unless otherwise stated)	2009	2008
Zinc grade (%)	4.15	3.10
Zinc in concentrate	149	137
Zinc metal	9	48

Zinc in concentrate production in 2009 was 9% higher than the prior year. The processing of stockpiled materials and an improved zinc recovery rate at the concentrators of 66.0%, up from 63.8%, was sufficient to offset a decrease in zinc metal in ore output of 55.5 kt.

The zinc grade rose year on year as the Akbastau mine, which had a grade of just 0.63%, was closed during 2009. The zinc smelter's operations were suspended during 2009 as concentrate sales were commercially more attractive. The smelter cleared its work in progress over the first quarter, generating 8.6 kt of zinc metal production, with zinc concentrate production during the year being sold externally.

The production of zinc concentrate during 2010 is expected to fall from the level achieved in 2009 as the contribution from stockpiled ore is reduced. There are no plans at present to restart the zinc smelter, so all zinc concentrate produced will be sold externally to customers in Kazakhstan and China during 2010.

Precious metals production summary

	2009	2008
Average silver grade (g/t)	20.62	21.05
Silver own production (koz)	16,894	16,710
Average gold grade (g/t)	0.66	0.85
Gold own production (koz)	135	124

The production of precious metals was impacted by the suspension of the Akbastau mine throughout the year and the gold rich Abyz mine remaining closed for stripping work for the first half of 2009. The average gold grade was lower in 2009, also impacted by the reduced output from the Akbastau and Abyz mines.

These factors led to a reduction in the volume of precious metal containing ore extracted, however, for both gold and silver the production of finished product exceeded the prior year due to the processing of previously stockpiled materials and, for gold, an improved recovery rate as the Karagaily concentrator was upgraded.

Gold production in 2010 is expected to remain in line with 2009 output with the Abyz mine operating throughout the year whilst silver output is anticipated to decline due to reduced grades and a lower contribution from stockpiled materials.

Sensitivity analysis on prices

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

The approximate effect on the profit before taxation and finance items resulting from a 10% movement in average realised commodity prices is shown in the following table. These sensitivities are based on 2009 figures and assume that all other variables remain constant. The estimated calculations shown do not include the impact of the copper hedging programme that was in place during the year.

Kazakhmys Copper commodity price sensitivity

	Average realised price during the year ended 31 December		Impact of 10% movement on profit \$ million ¹	
	2009	2008	% movement	
Copper (\$/t)	5,024	6,714	(25.2)%	159
Zinc (\$/t)	1,112	1,787	(37.8)%	16
Silver (\$/oz)	14.60	14.66	(0.4)%	24
Gold (\$/oz)	961	878	9.5%	12

¹ Profit before taxation and finance items.

Support services

Kazakhmys Copper's vertical integration includes three coal-fired power and heating plants at Karaganda, Balkhash and Zhezkazgan with a total capacity of 900 MW. The Karaganda plant supplies energy to Kazakhstan's national grid enabling other Kazakhmys Copper operations to receive electricity at only the cost of transmission. The total output in 2009 was 6,199 GWh, up from 5,910 GWh in 2008. The capital spend in 2008 resulted in an improved performance in 2009 with a reduced number of outages. The Karaganda station benefited from the installation of a 55 MW turbine, replacing a 50 MW turbine which was at the end of its economic life. The power and heating plants are supplied with fuel from Kazakhmys Copper's two coal mines which produced 7.5 MT of coal in 2009, in line with prior year output.

Kazakhmys Copper owns over 1,000 km of railway in Kazakhstan, a fleet of 100 locomotives and over 800 wagons which are managed on an outsourced basis to transport ore, concentrate and cathodes. In the East and Karaganda Regions there is less railroad infrastructure and Kazakhmys Copper operates road haulage fleets. A number of these routes have been outsourced to third party suppliers.

Financial summary

\$ million (unless otherwise stated)	2009	2008
Sales revenues:	2,357	3,227
Copper cathodes	1,563	2,272
Copper rods	41	314
Copper concentrate	107	19
Zinc (metal and concentrate)	146	149
Silver	251	251
Gold (excluding tolling)	127	109
Other	122	113

Average realised price of copper (\$/t)	5,024	6,714
EBITDA (excluding special items)	1,027	1,597
Net cash costs excluding purchased concentrate (US\$/lb)	72	116
Gross cash costs excluding purchased concentrate (US\$/lb)	159	191
Capital expenditure	310	592
Sustaining	216	362
Expansionary	94	230

Directors' Report: Business Review

MARKET AND OPERATIONS REVIEW CONTINUED

Revenues

Kazakhmys Copper's revenues decreased by 27% from \$3,227 million in 2008 to \$2,357 million in 2009. The fall in commodity prices, in particular copper, was the principal driver with the realised copper price \$1,690 lower than the prior year at \$5,024 per tonne. The 2009 realised price was 3% lower than the LME average for the year as Kazakhmys recorded 58% of its copper cathode sales in the first half of 2009, when the LME copper price was weaker. The 2009 annual sales volumes of copper products, including copper in concentrate, were 47 kt below the prior year, due to reduced production from both own and purchased copper concentrate. The impact of lower production on sales volumes was partially offset by a sell down of finished goods inventories at the start of the year, as copper sales volumes were 15.3 kt higher than production volumes.

Copper concentrate sales of 22.7 kt were made in 2009, up from 3.5 kt in 2008, as concentrate was shipped into China for the first seven months of the year. Copper rod sales were 8.5 kt in 2009 compared to 46.7 kt in 2008. The premium on sales into China was not sufficiently attractive so volumes were restricted to local demand in 2009.

Zinc revenues were impacted by an 11% fall in the average zinc price in 2009 and the decision to sell zinc concentrate rather than process it further into zinc metal. During 2009, zinc concentrate sales increased by 38% from 2008. Silver, the largest by-product based on revenue, experienced a 2% decrease in the average LBMA price which was compensated for by revenue from the silver content in concentrate sold. Gold revenues rose 17% to \$127 million, the result of sales volumes increasing by 6% and a 12% rise in the LBMA average price compared to the prior year.

Other revenue is made up of a number of products including power, coal, lead dust, heating and sulphuric acid. The growth in other revenue compared to the prior year was largely driven by sales of power from the Karaganda plant and the ramp up of sulphuric acid production at Balkhash.

EBITDA (excluding special items)

EBITDA fell by \$570 million or 36% in 2009 as copper revenues declined significantly. In response to the weakness in commodities, Kazakhmys Copper implemented a number of cost reduction measures which partially offset the loss in revenue, contributing to cost of sales falling 30% compared to the prior year. The major factors driving the lower costs include the suspension of high cost mines, lower input prices, a reduction in purchased concentrate and the impact of the tenge devaluation.

The suspension of high cost mines at the end of 2008 generated savings on fuel, consumables and transportation costs as ore output was 9% below the volume produced in 2008. Where possible, the workers and equipment at the affected mines were re-assigned to other operations. Salary costs were controlled by transferring staff at several operations to part-time work. The decision to suspend the zinc smelter in March 2009 removed the cost of processing concentrate further into ingots, as all zinc in concentrate is now sold externally.

In the fourth quarter of 2008, the economic downturn gave Kazakhmys the opportunity to renegotiate more favourable terms with suppliers. In addition, the decline in commodity prices had a beneficial impact on costs, for example, oil, steel and cement prices were all lower in 2009 than in 2008. However, improving economic conditions and higher commodity prices in the second half of the year led to a slight upward pressure on costs in that period.

The cost of purchased copper concentrate and blister copper used in copper production fell following the decision to phase out major purchases of copper concentrate, as one of the Zhezkazgan smelter furnaces was closed for maintenance. Small quantities of copper concentrate are still purchased to manage the level of sulphur in the Balkhash smelter. In 2008, 37.8 kt of copper cathodes were produced from purchased concentrate compared to 5.5 kt in 2009.

General and administrative expenses decreased by 5% in 2009 as the tenge devaluation contributed to the cost reduction in US dollar terms. In 2008, social spend included a number of one-off items in respect of the 10th anniversary celebration of the capital, Astana. In 2009, Kazakhmys focused on a number of ongoing programmes and contractual obligations. During the year, Kazakhmys also made contributions towards the construction of a technical college in Astana.

In February 2009, the tenge devalued by 25% against the US dollar, moving from approximately 120 KZT/\$ to 150 KZT/\$. The devaluation reduced tenge denominated costs such as labour, local services and utilities. The currency was relatively stable against the US dollar for the remainder of 2009, trading within the National Bank of Kazakhstan's target range of 145 to 155 KZT/\$. The National Bank has indicated a wider target range for the tenge in 2010 of between 127.5 to 165 KZT/\$ until March 2011 which could result in additional transactional and translational foreign exchange gains or losses going forward.

Early in 2009, to protect a number of marginal mines, Kazakhmys Copper entered into a hedging programme for approximately one third of monthly copper production. As the copper price rose across the remainder of the year, the hedging programme ended in December 2009 with a loss for the year of \$129 million included in other operating expenses. There are no such hedges in place in 2010. Further details can be found in the Financial Review.

Cash costs

The gross cash cost of copper (before by-product credits) reduced from 191 US cents per pound in 2008 to 159 US cents per pound in 2009. The decline in operating costs noted above more than offset the lower volumes of copper sold in 2009.

The net cash cost of copper excluding purchased concentrate fell from 116 US cents per pound in 2008 to 72 US cents per pound. The lower cash operating costs, together with an increase in by-product credits, resulted in the net cash cost falling significantly.

In 2010, a lower copper grade will raise the unit cost of production. Expected inflationary rises in costs may be mitigated by price driven movements in by-product credits.

Capital expenditure

The scope of Kazakhmys Copper's capital expenditure programme in 2009 was constrained as the Group focused on conserving cash during the economic downturn. The reduction was achieved by rationing capital expenditure on new projects and negotiating lower prices.

Following a substantial spend on mining equipment in 2007 and 2008, the reduction in sustaining capital expenditure in 2009 did not have a material impact on achieving the production plan. Equipment from suspended operations was transferred to other mines.

Sustaining

Sustaining capital expenditure in 2009 included payments for mining equipment ordered in 2008. The scope of the 2009 equipment programme was reduced with the focus on essential replacements. Sustaining capital expenditure was incurred at the concentrators to replace and modernise equipment to maintain operations and improve recovery rates. A tailings dump at the Balkhash concentrator underwent an overhaul.

Work was conducted at Kazakhmys Copper's smelters during the year, including the installation of a copper anode production line at the Zhezkazgan smelter to improve the quality of copper cathodes. The second furnace at the Zhezkazgan smelter, closed during 2009, has now been repaired and is available to recommence operations as required.

Maintenance was conducted on Kazakhmys Copper's power stations. This spend included the installation of a replacement 55 MW turbine at the Karaganda power station and repairs to boiler units and turbines. Sustaining capital expenditure in 2010 is expected to include the

purchase of replacement equipment at mining operations as part of the ongoing renewal programme, repair work at the smelters and power stations and replacing transportation infrastructure, particularly maintenance of Kazakhmys Copper's railway network.

Expansionary

In the Zhezkazgan Region, the increase of the capacity of the Zhomart mine continued along with the purchase of mining equipment. In the Karaganda Region, work was carried out to commence production from the new West Nurkazgan underground mine. Further expenditure will be made to increase the capacity of the underground mine and to develop the ore body further.

The East Region incurred expansionary capital expenditure on a number of mines to increase their production capacity and efficiency. This included the introduction of conveyors at the Orlovsky mine and the replacement of the ore lifting equipment to increase the capacity of the Artemyevsky mine. This capital expenditure will assist production from the mine when development of the deposit moves into the second stage.

In 2010, the capital programme for discretionary expenditure is expected to encompass work on a number of medium-term projects. These projects will include the development of the Kosmurun and Akbastau mines and associated concentrator, Zhomart second stage and the extension of the Abyz mine amongst other projects.

Kazakhmys Copper has two major long-term expansion projects comprising the large copper porphyry deposits at Bozshakol and Aktogay managed by a specialist internal team, Kazakhmys Projects.

Bozshakol

The pre-feasibility study was successfully completed for the Bozshakol sulphide ore deposit in April 2009. The study confirmed that Bozshakol is an economically viable project with net production costs expected to have an attractive position on the cost curve.

The study also identified value engineering opportunities to reduce capital costs, and additional engineering was completed in the latter half of 2009 to confirm these opportunities and enhance the robustness of the project's financial return.

The Bozshakol deposit is substantial with a management estimated geological resource of 1,169 MT of ore and a copper grade of 0.36%, a gold grade of 0.21 g/t, a silver grade of 4.9 g/t and molybdenum and rhenium by-products. Based on current projections of production levels, the resource base supports a mine life of 40 years.

In January 2010, Kazakhmys commenced the feasibility study on the deposit which will continue during 2010 to confirm the project's scope and execution strategy prior to moving to the development stage. Aker Solutions has been appointed as the study contractor and will develop the project in conjunction with the Kazakhmys Projects team. The feasibility study is expected to be completed in the fourth quarter of 2010 with the potential for construction to commence in 2011. The construction phase is estimated to be three to four years in duration.

The ore will be mined by an open pit truck and shovel operation, with total extraction volumes at the deposit increasing to 60 MT per annum including stripping works. The Bozshakol processing plant is expected to be a conventional copper concentrator with an ultimate throughput rate of approximately 25 MT per annum. The feasibility study will consider the optimal sales options, which include the sale of concentrate to China or the sale of cathode after smelting internally.

The development of the project will be funded by the loan facility negotiated with the China Development Bank and Samruk. From the loan facility, Kazakhmys has allocated up to \$2 billion to fund the development of the project.

Aktogay

The technical studies for the development of the Aktogay deposit have progressed during 2009 with a combined pre-feasibility study completed in October 2009 that incorporated the deposit's sulphide and oxide ore bodies.

The study demonstrates that Aktogay is a large resource containing nearly 5 MT of copper along with silver and molybdenum by-products. The current estimated mineable oxide resource contains 119 MT of ore with 0.37% copper grade, and a mineable sulphide resource of 1,268 MT of ore with 0.38% copper grade. Scope exists to expand the resource in the Aktogay deposit with further exploration work.

The deposit would be mined using a conventional open pit truck and shovel system. Based on the estimated production levels, the resource base supports a mine life of 40 years. The project would involve the construction of a processing plant and a copper concentrator.

Kazakhmys is currently evaluating the results of the 2009 pre-feasibility study to identify opportunities for improving the economics of the project and assessing financing options prior to its potential advancement to feasibility stage.

MARKET AND OPERATIONS REVIEW CONTINUED

AT A GLANCE

KAZAKHMYG GOLD



OPERATIONS:

Location:	Kazakhstan and Kyrgyzstan
Mines:	Mizek Oxide and Central Mukur
Growth projects:	Bozymchak and Mizek Sulphide

PRODUCTION OVERVIEW:

Gold doré:	47 koz
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FINANCIAL OVERVIEW:

Sales revenues:	\$47 million
EBITDA (excluding special items):	\$24 million

Production summary

	2009	2008
Ore output (kt)	1,564	2,014
Average gold grade (g/t)	1.39	1.50
Gold doré production (koz)	47	56

During 2009, ore extraction took place at Kazakhmys Gold's two operating mines, Mizek Oxide and Central Mukur. The output figures for 2009 reflect the impact of the closure of the Zhaima mine in September 2008, and also lower output from Mizek Oxide. The lower gold grade is due to a fall in gold content as the mines continue to mature.

In 2010, output from the Kazakhstan operating mines may fall further as extraction becomes more challenging with the mines expected to cease output during 2011. The gold-copper development project in Kyrgyzstan, Bozymchak, is expected to commence output late in 2010. More details on this project can be found in the capital expenditure section below.

Financial summary

\$ million (unless otherwise stated)	2009	2008
Sales revenues	47	49
Average realised price (\$/oz)	982	878
EBITDA (excluding special items)	24	19
Cash cost (\$/oz)	343	440
Capital expenditure	15	13
Sustaining	3	3
Expansionary	12	10

Revenues

In 2009, Kazakhmys Gold sold doré under an annual contract to a European trader, with the price determined by reference to the LBMA price less refining charges. These arrangements are expected to remain unchanged in 2010.

Kazakhmys Gold's revenues decreased by only \$2 million to \$47 million in 2009, despite a reduction in gold sales volumes following the closure of the Zhaima mine in 2008, and the decrease in output from Mizek Oxide. The lower sales volumes were largely offset by the strength of gold prices in 2009, with an average realised price of \$982 per ounce, 12% higher than in the prior year.

EBITDA (excluding special items)

The improved EBITDA in 2009 resulted from the higher realised gold price which maintained revenues at the same level as the prior year, whilst production volumes, and therefore costs, were lower. Kazakhmys Gold also benefited from the currency devaluation on its tenge denominated cost base and the price of various input materials fell compared to 2008.

Cash cost

The cash cost is lower in 2009 compared to the prior year due to the devaluation of the tenge and lower input prices. The cash cost in 2008 included royalty payments of \$21 per ounce which are not present in 2009 following changes to the Kazakhstan tax code.

Capital expenditure

Sustaining

Sustaining capital expenditure of \$3 million in 2009 was for the replacement of equipment at Kazakhmys Gold's existing mining operations.

Expansionary

Kazakhmys Gold's major focus in 2009 was the progression of the Bozymchak gold-copper project which successfully moved from the feasibility stage to development towards the end of the year. The project's development will be funded by the allocation of \$100 million from the loan facility negotiated with the China Development Bank and Samruk.

The Bozymchak deposit is located in Kyrgyzstan and contains gold, copper and silver. The development of the deposit is proceeding with stripping work to commence in April 2010. The delivery of the concentrator is expected to take place in early 2010 and construction should be completed in the latter part of the year.

Bozymchak will commence operations as an open pit mine in late 2010, producing around 5 MT of ore over a six year period with a gradual transition to underground mining from 2014, which will produce a further 11 MT of ore.

The concentrator should reach an annual production capacity of 35 kt of concentrate by the end of 2011. The planned annual production of copper in concentrate is 7 kt and 30 koz of gold, once fully commissioned.

During 2009, further technical studies were conducted on the Mizek Sulphide project located in northeast Kazakhstan. The technical studies are expected to be completed in the first half of 2010. The development of the Mizek Sulphide site will remain on hold until a viable option for the processing of ore is identified.

Exploration work at the Akjilga silver and copper deposit in Tajikistan continued in 2009 which improved the understanding of the ore body. At present, Kazakhmys does not believe Akjilga to be of sufficient scale to develop further and accordingly is reviewing options for the deposit.

AT A GLANCE

KAZAKHMY'S POWER



OPERATIONS:

Location:	North Kazakhstan
Divisional operations:	Ekibastuz GRES-1 power plant and Maikuben West coal mine

PRODUCTION OVERVIEW:

Net dependable capacity:	2,012 MW
Net power generated:	9,737 GWh

FINANCIAL OVERVIEW:

Sales revenues:	\$238 million
EBITDA (excluding special items):	\$120 million

Kazakhmys acquired the Ekibastuz GRES-1 coal fired power plant and the Maikuben West coal mine in May 2008. Under an agreement put in place as part of the acquisition, the assets were managed by AES Corporation, the previous owner of the power plant and coal mine. In the second quarter of 2009, Kazakhmys and AES Corporation ended the management services agreement following which the power plant and coal mine have been under Kazakhmys' direct management.

Market overview

In October 2008, Samruk, announced its intention to acquire a stake in the power plant, and completed the acquisition of a 50% stake in Ekibastuz GRES-1 in February 2010. Under the joint venture agreement introduced as part of the transaction, the power plant will be operationally managed by a Kazakhmys appointed team for the next five years, following which a team selected by Samruk will assume management for a five year fixed term. A supervisory board has been created, containing representatives of both owners, to oversee the plant's management team. The business has been classified as held for sale at the 2009 year end under IFRS, as, following the sale of 50% of Ekibastuz GRES-1 to Samruk, the business will be equity accounted as a joint venture.

Going forward, Ekibastuz GRES-1 is expected to source coal almost exclusively from the Bogatyr mine, which is jointly owned by Samruk and UC RUSAL. The strategic value in owning the Maikuben West coal mine has consequently been reduced and Kazakhmys has determined that the mine is now held for sale.

Demand

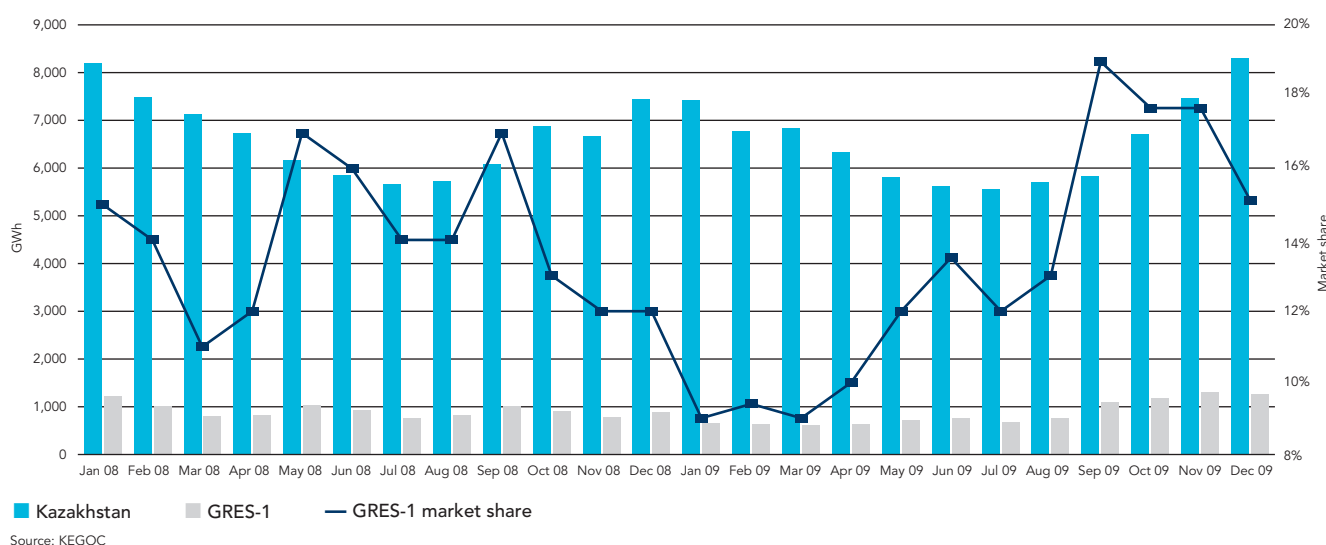
The economic downturn had a significant impact on electricity demand in Kazakhstan and Russia as industrial output fell. In the first quarter of 2009, with energy intensive industrial users reducing electricity usage, demand was weak and additional supply entered the market as industrial groups with captive power generation used surplus power to supply external customers.

From the second quarter of 2009, demand for electricity improved as industrial production in Kazakhstan and Russia recovered and industrial groups with captive power generation used an increased proportion of energy production internally. Scheduled maintenance at other power plants led to supply outages, enabling Ekibastuz GRES-1 to supply additional volume into the market.

Power stations in the northern grid of Kazakhstan, including Ekibastuz GRES-1, were given greater access to the southern and western grids during 2009 as a consortium led by KEGOC, the operator of the power network in Kazakhstan, made significant improvements to the transmission lines which link Kazakhstan's three main electricity grids.

The network upgrades included the completion of a 400 MW transmission line linking the northern and western grids in February 2009. A second North to South transmission line was completed in September 2009, increasing the total capacity of the North to South line from 650 MW to 1,350 MW.

GRES-1 share in Kazakhstan power generation



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MARKET AND OPERATIONS REVIEW CONTINUED

These developments enabled Ekibastuz GRES-1 to increase its market share of the volume of electricity generated in Kazakhstan from approximately 9% at the commencement of the year to 15% at the year end.

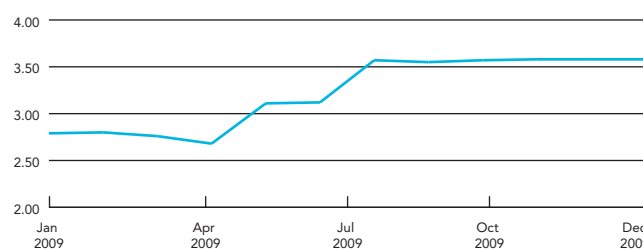
Electricity demand is forecast to continue to recover in 2010 as industrial activity recovers in Kazakhstan and Russia.

Tariffs

In April 2009, to encourage investment in power generation plants, the Kazakhstan Government introduced a framework to raise tariff ceilings for domestic electricity sales for the years 2009 to 2015. The ceiling prices will be set by the Ministry of Energy on an annual basis, and are subject to the generator meeting capital investment commitments.

The Ministry of Energy set Ekibastuz GRES-1 a ceiling tariff in April 2009 of 3.60 KZT/kWh. With the introduction of the higher ceiling price and the recovery in electricity demand, Ekibastuz GRES-1 was able to increase electricity tariffs for the domestic market to close to the ceiling tariff by July 2009. The tariff ceiling for 2010 has been set at 4.68 KZT/kWh, a level which is expected to be achieved by Ekibastuz GRES-1 in Kazakhstan during 2010.

Ekibastuz GRES-1: 2009 Kazakhstan electricity tariffs (KZT/kWh)



Ekibastuz GRES-1 exports around 20% of its electricity generation to Russia which is surplus to the demand requirements of the Kazakhstan market. The exports were at lower prices than domestic sales in Kazakhstan reflecting the excess capacity in Russia. Demand in the Russian electricity market recovered over the course of 2009 due to improved economic conditions and as supply was impacted by an accident at Russia's biggest hydro power plant, Sayano-Shusenskaya, in August 2009. It is expected that export prices to Russia will rise in 2010.

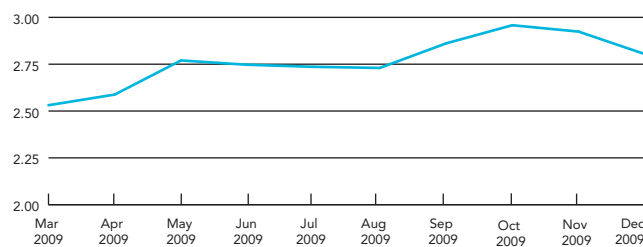
Production summary

	2009	2008
Net power generated (GWh)	9,737	10,402
Net power generated attributable to Kazakhmys ¹ (GWh)	9,737	5,774
Net dependable capacity (MW)	2,012	1,946
Coal extraction (kt)	3,688	3,600
Coal extraction attributable to Kazakhmys ¹ (kt)	3,688	2,170

¹ 2008 comparatives are for the period from acquisition on 29 May 2008.

Net power generated in 2009 was primarily demand driven as the power plant had spare capacity throughout the year. Demand for power in Kazakhstan declined at the end of 2008 and remained subdued in early 2009 but recovered strongly over the second half of the year. Of the 9,737 GWh net power generated in 2009, 61% was in the second half, representing growth of 21% over the same period in 2008. Ekibastuz GRES-1 completed its scheduled annual maintenance work on the units in September 2009, ahead of neighbouring power stations, enabling it to take advantage of the uplift in demand and increase its supply to existing and new customers over the latter months of the year.

Ekibastuz GRES-1: 2009 sales tariffs to Russia (KZT/kWh)



The increase of 3% in net dependable capacity from the prior year reflects the overhaul work carried out on Unit 6 in 2008, which returned to operation in October of that year. In 2009, the overhaul of Unit 5 was completed in November.

Coal extraction from Maikuben West was in line with the prior year with shipments to Ekibastuz GRES-1 and to third parties.

In 2010, demand for electricity is expected to be at least at the levels seen in 2009 as the recovery in demand continues. All of the five operating units at the power plant will undergo annual maintenance which is scheduled to take units offline at different times and avoid peak demand periods to minimise the potential impact on sales. Unit 3 is scheduled to undergo an overhaul during 2010, with the completion of the first phase of the overhaul planned prior to the winter season.

Financial summary

\$ million (unless otherwise stated)	2009	2008
Sales revenues ¹	238	156
Average tariff price (KZT/kWh)	3.19	2.42
Domestic sales	3.30	2.59
Export sales	2.78	1.59
Average cost ¹ (KZT/kWh)	1.54	1.72
EBITDA (excluding special items) ¹	120	42
Capital expenditure ¹	61	39
Sustaining	17	4
Expansionary	44	35

¹ 2008 comparatives are for the period from acquisition on 29 May 2008.

Revenues

Revenue for 2009 represents Kazakhmys Power's first full year under Kazakhmys' ownership during which sales benefited from electricity tariff increases in Kazakhstan and Russia, but were negatively impacted by low sales volumes in the first half of 2009 due to the economic downturn. The revenues, as presented in US dollars, were also negatively impacted by the tenge devaluation in February 2009.

The average realised electricity price for Ekibastuz GRES-1 in Kazakhstan rose from 2.79 KZT/kWh in January 2009 to 3.58 KZT/kWh in December 2009. The strength in demand in Kazakhstan during the second half of the year enabled the power plant to raise prices and grow sales volumes at the same time, assisted by the recovery in industrial production, reduced supply from competitors, and upgrade of the transmission lines giving access to new customers.

The average electricity tariff price achieved in the year, as shown in the table above, includes sales to Russia at rates below those in Kazakhstan. Approximately 20% of sales volumes are exported to Russia, however in 2009, there were no export sales in the first two months due to extended price negotiations.

Kazakhmys Power's revenues of \$238 million included \$29 million from the Maikuben West coal mine from sales to residential and industrial users. Third party coal sales volumes decreased by 33% due to the downturn in electricity demand in Russia compared with the prior year. Coal prices for sales to third parties remained largely unchanged from 2008.

EBITDA (excluding special items)

Almost 90% of Kazakhmys Power's EBITDA is generated by Ekibastuz GRES-1. Due to the challenging marketplace in the first half of the year, Kazakhmys Power's EBITDA by the end of June 2009 was only \$41 million, compared to the second half EBITDA of \$79 million, driven by higher sales volumes and prices.

The coal used by Ekibastuz GRES-1, largely sourced from the nearby Bogatyr mine, forms the main operating cost of the power plant. Coal prices at the start of the year were 10% above those in 2008. During the year, Bogatyr raised prices further and Ekibastuz GRES-1 began purchasing varying grades of coal to keep the average cost down. To further control costs, Kazakhmys Power took a number of actions in 2009 including carrying out repair and maintenance work internally and implementing projects to improve the efficiency of the power plant.

The majority of Kazakhmys Power's operating costs are denominated in tenge and therefore partially mitigated the impact of the tenge devaluation on revenue when reported in US dollars.

Average cost

The cash cost per kWh of electricity decreased by 10% in 2009 due to the measures taken to control costs. Coal costs comprise approximately 49% of all cash costs; the remaining 51% is made up of transmission costs, emission taxes, fuel, water, labour, repair and administrative costs.

Capital expenditure

Sustaining

Sustaining capital expenditure in 2009 related to work at Ekibastuz GRES-1 to maintain and improve the operational efficiency of the existing units. This annual maintenance work was mainly carried out over the summer period with short-term outages. At the Maikuben West coal mine, replacement equipment was purchased in order to fulfil the targeted level of stripping works at the mine and to maintain the mine's railway network.

Expansionary

The overhaul of Unit 5 to modernise the unit and improve operating efficiency commenced in April 2009 and was successfully completed with the unit recommencing operations in November 2009. The overhaul has increased Unit 5's gross dependable capacity from 430 MW to its nameplate capacity of 500 MW. A new electrostatic precipitator is also being fitted on Unit 5, with its installation to complete in June 2010, avoiding outages during the peak winter period.

Preliminary work was also conducted on the rehabilitation of Unit 8 during 2009. The rehabilitation programme will involve the replacement of the majority of Unit 8's components to bring the dormant 500 MW unit into production by 2013. The recommencement of Unit 8 will increase Ekibastuz GRES-1's total available generation capacity to 3,000 MW by 2013 and enable Ekibastuz GRES-1 to benefit from the forecast growth in sales tariffs and power demand in Kazakhstan.

The two other dormant units are scheduled to be restored following Unit 8. Once the dormant units have been refurbished, the plant will operate at its nameplate capacity of 4,000 MW. The expansion programme is dependent upon the achievement of tariff increases in future years.

The modernisation programme also includes a number of environmental improvements to the power plant, with the installation of electrostatic precipitators on all units to reduce ash emissions to international benchmark standards and improvements to ash disposal systems.

In 2010, capital expenditure will be mainly focused on the rehabilitation of Unit 8. An overhaul of Unit 3 will also be conducted as part of the programme to overhaul each unit at Ekibastuz GRES-1 every five years. The last overhaul on Unit 3 was performed in 2005.

AT A GLANCE

KAZAKHMY'S PETROLEUM



OPERATIONS:

Location of block:	West Kazakhstan, fringe of the Caspian depression
Exploration areas:	Subsalt section in Eastern Akzhar and suprasalt section in Northern Elimessai
Exploration programme:	3D seismic study Shallow well drilling programme Deep well drilling programme

Financial summary

\$ million	2009	2008
EBITDA (excluding special items)	(1)	(1)
Capital expenditure (expansionary)	34	42

Kazakhmys Petroleum is the Group's oil exploration division which holds the exploration rights to a 602 km² exploration block located to the south of Aktobe in western Kazakhstan. Work has been carried out on the site, close to a number of producing oil and gas operations, since its acquisition in May 2007.

The focus of the exploration activities in 2009 was the deep well drilling programme which commenced in 2008. The first deep well, a copy of a well drilled in the 1980s, reached the target depth of 5,185 metres and testing confirmed the presence of hydrocarbons, however recoverability was not determined due to technical difficulties. These have proved complex to overcome and to complete testing, a side-shaft is being drilled which is scheduled to reach the desired depth later in 2010.

The main drilling rig used on the first deep well was relocated to a new site and a second deep well was completed at a depth of 5,228 metres. The initial test results have confirmed the presence of hydrocarbons, however the well pressure was lower than anticipated. A number of options are being considered to raise the pressure including hydro and acid treatments.

The drilling of the third deep well commenced in the second half of 2009 and had reached a depth of 4,312 metres at the end of December. The projected depth of 5,200 metres is expected to be achieved by the end of March 2010 with testing to follow.

Further 3D seismic work has been carried out in 2009 on an area to the northwest of the field, previously the subject of a contractual dispute, which has now been resolved in Kazakhmys Petroleum's favour. The results of the testing are being analysed and will be used to determine the site of a future deep well. In 2010, the third deep well will be completed and a fourth deep well drilled.

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MARKET AND OPERATIONS REVIEW CONTINUED

EBITDA (excluding special items)

The negative EBITDA is due to the expensing of off-site operating costs, in particular, the office expenses in Almaty and management salaries.

AT A GLANCE

MKM



OPERATIONS:

Location:	Germany (Hettstedt)
Line of business:	Copper and copper alloy semi-finished products
Main industries supplied:	Automotive, construction and manufacturing
Main market:	Europe
Main products:	Wire, flats, tubes and bars

FINANCIAL OVERVIEW:

EBITDA (excluding special items):	\$76 million
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MKM is the Group's downstream copper business, which produces and sells copper and copper alloy semi-finished products. Based in Germany, the business is structured in three sections: wire products, flat products (strips, plates and sheets) and tubes and bars. Kazakhmys has determined that MKM is not considered a core business as it is no longer consistent with the Group's geographic and strategic focus. The business has therefore been classified as held for sale at the 2009 year end.

Financial summary

\$ million (unless otherwise stated)	2009	2008
GVA ¹ (€ million)	123	161
Wire section (€ million)	29	38
Flat section (€ million)	60	80
Tubes and bars (€ million)	34	43
EBITDA (excluding special items)	76	(1)
Capital expenditure (sustaining)	9	11

¹ GVA is Gross Value Added which is calculated as turnover less the input cost of copper cathode, i.e. MKM's 'value add'. It is not a statutory reporting measure. The GVA figures are presented in Euros, MKM's operating currency.

GVA

Gross Value Added (GVA) represents the conversion charge that customers pay in excess of the copper cathode cost, and is considered a key performance measure for MKM as it excludes the impact of changes in the price of copper.

GVA fell by 24% in 2009, principally due to the economic weakness in Europe, MKM's core marketplace, which accounts for almost 90% of sales volumes. Industrial output in the region was severely impacted by the economic downturn, which led to lower demand across all product lines. The lack of availability of debtor insurance which forms part of MKM's risk management policy, forced MKM to limit sales to certain customers. These factors led to sales volumes falling by 13% from 273 kt to 237 kt, with reductions across all three sections.

To support sales activities, MKM maintained higher levels of inventory which enabled more short-term orders to be accepted. Management also made a number of changes to the structure of the sales force. MKM was forced to accept lower margins to protect its market position.

Within the wire section, wire rod sales volumes were supported by high demand in eastern Europe, however, overall volumes were lower as sales to MKM's core markets declined. GVA from the wire section was also impacted in 2009 as a result of lower sales from the higher margin drawn wire products driven by the weakness in the automotive industry. Flat products, consisting of plates, strips and sheets, experienced a 15% decrease in GVA per tonne due to reduced demand and pricing pressure from competitors. Tubes and bars saw volumes reduce by 15% due to a slowdown in building industry activity.

Whilst the first half of the year was extremely challenging, MKM has seen a recovery in orders in the second half of 2009 as the major European economies returned to growth.

EBITDA (excluding special items)

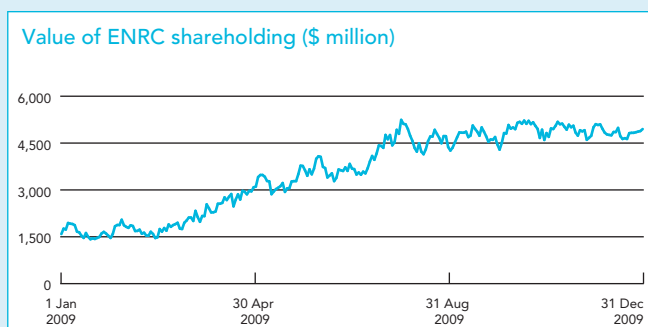
Although GVA decreased in 2009, EBITDA was \$77 million higher than in the prior year. EBITDA in 2009 includes a positive \$58 million IFRS inventory adjustment due to the rising copper price over the year, compared to a negative \$48 million IFRS adjustment in 2008. Excluding the impact of the IFRS inventory adjustment and presented in Euros to better reflect underlying performance, EBITDA was €15.0 million in 2009, €14.9 million lower than in the prior year.

In response to the lower demand, certain production shifts were cancelled, overtime work was substantially reduced, and temporary workers were released. Other costs which reduced in 2009 include utility costs with lower gas prices and energy consumption due to the decline in production volumes. In addition, maintenance work was carried out internally where possible.

Capital expenditure

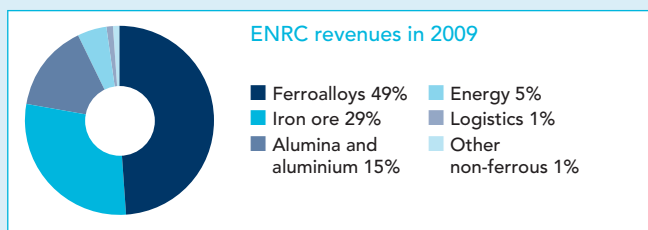
Capital expenditure in 2009 was restricted due to the economic downturn. Projects were completed on the tubes, bars and sheets production lines to improve operational efficiency.

ENRC



Kazakhmys holds an interest of 26% in ENRC PLC, a diversified natural resources group with significant operations in Kazakhstan. ENRC listed on the London Stock Exchange in December 2007 and had a market capitalisation as at 31 December 2009 of \$18.8 billion.

ENRC's operations in Kazakhstan are vertically integrated with the ENRC group comprising six operating divisions covering ferroalloys, iron ore, alumina and aluminium, energy, logistics and other non-ferrous. The other non-ferrous division was added in November 2009 when ENRC completed its acquisition of Central African Mining and Exploration Company PLC (CAMEC). This acquisition adds cobalt and copper to its portfolio of products and further expands ENRC's geographic focus.



The ferroalloys division has chrome and manganese mines from which extracted ore is sold to third party producers or internally processed into ferrochrome and other ferroalloys. The division's chrome reserves are substantial with an attractive grade. A second chrome ore pelletising plant at Donskoy GOK was completed in July 2009 providing additional output capacity of 700 kt per annum. The vertical integration of ENRC includes captive power, a factor giving ENRC a competitive position on the chrome cost curve.

The iron ore division mines and processes iron ore into concentrate and pellets for sale principally to steel producers. The large scale mines and processing plants are relatively low cost, with the position on the cost curve benefiting from captive power production.

ENRC's alumina and aluminium division is one of the world's largest suppliers of traded alumina in the world. The division operates two bauxite mines which feed an alumina refinery. During 2009, a capacity expansion programme was commenced at the aluminium smelter, which is expected to complete in 2010 and increase the smelter's production capacity to 250 kt per annum.

The energy division operates a coal-fired power station at Aksu, in the northern grid of Kazakhstan. The electricity produced is sold internally to other divisions, with excess power sold to third parties. The division also has sufficient internal coal supply to meet the power plant's needs, with excess coal production sold externally.

The logistics division provides cost effective transportation and logistics services to ENRC's operations in Kazakhstan and to third parties.

The other non-ferrous division incorporates the copper and cobalt assets of CAMEC in the Democratic Republic of Congo and development opportunities in other parts of Africa. In February 2010, ENRC entered into a conditional agreement for the acquisition of Enya Holdings BV which principally holds a 90% interest in Chambishi Metals PLC, a Zambian copper and cobalt producer.

ENRC divisional underlying EBITDA excluding MET¹

\$ million	2009	2008
Ferroalloys	820	2,789
Iron ore	528	919
Alumina and aluminium	88	295
Energy	213	177
Logistics	39	50
Other non-ferrous	6	–
Corporate	(66)	(69)
Group	1,628	4,161
Kazakhmys' share of EBITDA of ENRC	423	429

¹ The 2009 results for ENRC are unaudited.

A decline in demand from the stainless steel industry led to lower prices in the ferroalloys division. In response, chrome ore extraction and ferrochrome output were reduced and management took measures to control costs. The second half of 2009 saw strong demand from China and ferroalloy production returned to full capacity by the year end. The decrease in the division's EBITDA in 2009 was primarily price driven.

The iron ore division was affected by weakness in the steel market at the start of 2009, which resulted in iron ore extraction being reduced. Global market demand, led by China, rebounded during 2009 and ENRC's iron ore extraction was at near full capacity in the second half of 2009. The reduction in EBITDA from 2008 was due to a combination of market prices falling and a move by customers from pellets to lower priced concentrate.

Alumina volumes were largely unchanged compared to the prior year due to sales being made under a long-term contract. Aluminium production increased benefiting from a full year at the aluminium smelter's phase 1 capacity of 125 kt. The division was impacted by lower LME aluminium prices, the main factor in the lower 2009 EBITDA, reflecting challenging economic conditions.

Energy production rose in 2009 following the completion of a turbine refurbishment and other maintenance work. Lower demand from the other divisions led to a greater volume of electricity being sold externally compared to the prior year. The second half of 2009 saw internal demand rise as the ferroalloys and iron ore divisions raised output. The energy division also benefited from rising tariffs in Kazakhstan for its external sales. The increase in available generation capacity and higher third party sales contributed to the division's EBITDA growth.

Freight forwarding services provided by the logistics division to external parties declined as internal demand increased. EBITDA was lower in 2009 as revenue was impacted by a reduction in railway repair services provided to third parties and the devaluation of the tenge.

The other non-ferrous division reflects the initial contribution from CAMEC following its acquisition in November 2009.

Kazakhmys adopted equity accounting for its interest in ENRC when the Group owned in excess of 25% of the issued share capital of ENRC in the second half of 2008. Kazakhmys' share of ENRC's EBITDA of \$423 million recognised for 2009 represents a full year's equity accounting, but is below the prior year reflecting the lower pricing for ENRC's main products during the first half of 2009.

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RISK MANAGEMENT

Kazakhmys' risk environment has improved significantly over the past few years with progress being made in better understanding and managing the Group's significant risks and embedding a risk governance framework in operational management processes. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework.

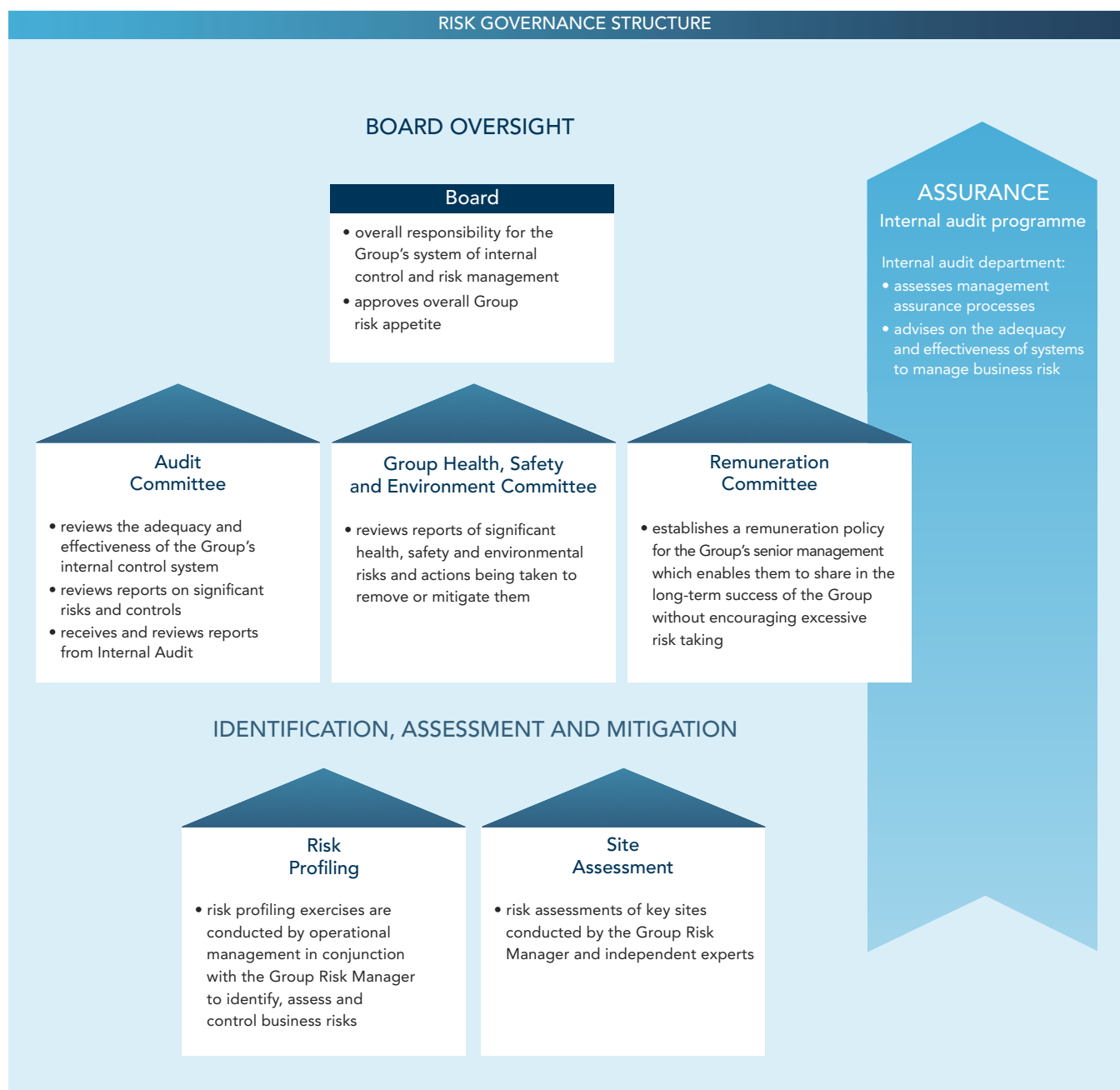
MANAGING GROUP RISKS

The Group, in the course of its business activities, is exposed to operational and financial risks. The Group's approach to internal control is business risk driven, with emphasis on both operational and financial risks as explained in the Governance Framework on page 67.

The Board has approved a formalised but pragmatic Group risk management framework. This framework is designed to provide assurance that risks are being identified and managed in a manner

appropriate to the Group's circumstances. It comprises risk identification and assessment processes, together with risk response and monitoring activities.

The Group Risk Manager coordinates the risk assessment and identification activities, and facilitates the development of appropriate responses to identified risks. Details of the process for identifying and managing the Group's risks is set out below and an overview of the risks identified are set out on pages 33 to 35.



RISK FACTORS

The significant risks identified by Kazakhmys are those that could materially affect the Group's financial condition, performance, strategies and prospects. These should be carefully considered in conjunction with the cautionary statement set out on the inside back cover. There may be other risks unknown, or currently believed immaterial, by Kazakhmys which could turn out to be material.

OPERATIONAL RISKS	
<p>Health, safety and the environment</p> <p>Mining is a hazardous industry and failure to adopt and embed health, safety and environmental management systems could result in harm to Kazakhmys' employees, the environment and the communities in which the Group operates as well as fines and penalties and damage to its reputation. Policies and measures at a national and international level to tackle climate change will increasingly affect the business, presenting environmental and regulatory risks.</p> <p>Impact</p> <p>Health, safety and environmental incidents could lead to a number of adverse consequences, including harm to people, the environment and communities near Kazakhmys' operations as well as production disruption, reputational damage and financial loss.</p>	<p>Action</p> <p>Kazakhmys recognises that the highest standards of health, safety, environmental and community practices are vital to its success, and are a key responsibility of all employees. The Group's policies and procedures in these areas are designed to identify relevant risks and opportunities and provide a clear framework for conducting business. Further details are set out in the Corporate Responsibility Report commencing on page 50.</p>
<p>Business interruption</p> <p>The business of mining, smelting and refining metals and the production of power is resource intensive, and involves a number of risks, including, but not limited to, geological and technological challenges, weather and other natural phenomena such as flood and earthquake, fires, explosions, equipment failure, delays in supplies and loss of key inputs including electricity, water, coal, which can cause prolonged mine or plant shutdowns or periods of reduced production.</p> <p>Impact</p> <p>Any disruption to operational activities could have a negative impact on the Group's profitability and cash flows, and may require the Group to make large unplanned capital expenditures. In addition to revenue losses, long-term business interruption could result in a loss of customers and reputational damage.</p>	<p>Action</p> <p>Work is being carried out across the Group, with the support of appropriate in-house and third party specialists, to address operational risk issues. The Group is partially protected from the loss of key assets by the availability of geographically diversified operations and access to multiple power sources.</p> <p>The Group's insurance coverage can provide protection from some, but not all, of the costs that may arise from unforeseen events. A combined property damage and business interruption catastrophic insurance programme is in place which can provide protection from some of the financial impact of a major incident at the Group's main concentrating, smelting and refining facilities, and power stations.</p>
<p>Assets controlled by third parties and joint ventures</p> <p>Kazakhmys holds a 26% investment in ENRC PLC. The business and financial performance of this investment is not controlled by the Group. Furthermore in 2010, the Group has entered into a joint venture arrangement in respect of the ownership and management of the Ekibastuz GRES-1 power station.</p> <p>Impact</p> <p>Decisions made by the board of ENRC PLC could have a material impact on the reported earnings of Kazakhmys. Furthermore, changes in market or macroeconomic conditions could impact the cash flows and the valuation of Kazakhmys' investment in ENRC PLC.</p> <p>The Group's partner in the Ekibastuz GRES-1 joint venture may have business interests inconsistent with those of the Group and may exercise its right to block certain actions. The partner may take actions which are inconsistent with the Group's policies or standards.</p>	<p>Action</p> <p>Kazakhmys monitors the business and financial performance of its 26% investment in ENRC PLC. The Group has the ability to exercise its rights as the single largest shareholder of ENRC PLC.</p> <p>Kazakhmys seeks to ensure that the appropriate governance structures are in place to manage its Power joint venture in accordance with the Group's business interests and that they are consistent with the Group's policies and standards. Under the terms of the joint venture arrangement, Kazakhmys is entitled to appoint the operational management of the Power plant until 2015, overseen by a supervisory board consisting of representatives of both joint venture partners.</p>

Directors' Report: Business Review

RISK FACTORS CONTINUED

New projects

The development of new projects involves many risks including geological, engineering, financing and regulatory risks. If the Group fails to adopt an appropriate procurement and project management strategy, it may experience delays to project schedules and an increase in costs. Regulatory risks include failure to obtain and maintain applicable permits, licences or approvals from the relevant authorities to carry out or operate certain works.

Impact

Projects may fail to achieve the desired economic returns due to an inability to recover mineral reserves and higher than expected capital and operating costs. Projects may also suffer delays which result in a financial loss to the Group.

Action

Prior to an investment decision being made, certain activities are performed including, where appropriate, feasibility and other technical studies. The Group ensures that sufficient expertise, from both in-house and third party specialists, is utilised on projects throughout their life cycle. Furthermore, there are procedures in place addressing areas such as budgeting and management of capital expenditure projects.

Political risk

Most of the Group's mining and power operations are in Kazakhstan. Accordingly, the Group is substantially dependent on the social, political, economic, legal and fiscal conditions prevailing in Kazakhstan.

Impact

Changes to Kazakhstan's foreign trade (export and import), foreign investments, property, tax, environmental or mining regimes or other changes that affect the supportive business environment in Kazakhstan could negatively affect the Group's business, financial position and performance.

Action

The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia. The Government of Kazakhstan has representation on the Board of Kazakhmys and is a significant shareholder in the Group. The Board continues to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remains optimistic about the conditions for business in the region.

Kazakhmys maintains a proactive dialogue with the Government of Kazakhstan across a range of issues.

Subsoil use rights

In Kazakhstan and certain other countries in which the Group operates, all subsoil reserves belong to the State. Subsoil use rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. Rights may be terminated if the Group does not satisfy its licensing or contractual obligations, which may include periodic payment of royalties to State authorities and the satisfaction of mining, development, environmental, health and safety requirements.

Impact

As many of Kazakhstan's subsoil use laws have been adopted relatively recently, the legal consequences of a given breach may not be predictable. However, non-compliance with the requirements of subsoil use contracts could potentially lead to regulatory challenges and subsequently to fines/litigation and ultimately to the loss of operating licences. The loss of any of the Group's subsoil use rights could have a material adverse effect on its mining operations.

Action

The Group's management makes every effort to engage with the relevant regulatory authorities and ensure compliance with all relevant legislation and subsoil use contracts.

Reserves and resources

Kazakhmys' ore reserves for operating mines and development projects are largely based on the estimation method for reserves and resources established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves, and geological, technical and economic assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Impact

Changes in reserves could adversely impact mine plans and the economic viability of projects resulting in economic losses, negatively impacting the Group's financial position and performance.

Action

Kazakhmys engages the services of independent experts to review reserve calculations for operating mines and development projects, normally on an annual basis. For more details refer to page 158. A project is underway to digitise selected mine reserves which will be used in the future for revised estimates of reserves and to support improved estimation of ore grades and mine planning.

FINANCIAL RISKS

Commodity prices

Kazakhmys' results are strongly influenced by commodity prices which are dependent on a number of factors impacting world supply and demand. Due to these factors, commodity prices may be subject to significant fluctuations from year to year. The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international global metal exchanges. Commodity price fluctuations can also have an impact on demand for specialist staff, equipment, materials and supplies in the mining sector, which can cause skills and material shortages and create cost pressure on the Group's operating and capital costs, which affect financial performance.

Impact

Commodity prices can fluctuate widely and could have a material impact on the Group's asset values, revenues, earnings and cash flows. In addition, commodity price increases could cause supply or capacity constraints in areas such as specialist staff or mining equipment.

Action

The Group keeps under regular review its sensitivity to fluctuations in commodity prices, and a sensitivity analysis showing the impact on profits of a 10% movement in commodity prices is set out on page 23. The Group does not as a matter of course hedge commodity prices, but may enter into a hedge programme for certain commodities where the Board determines it is in the Group's interest to provide greater certainty over future cash flows, as was the case in 2009. In response to the reduction in commodity prices, the Group took a number of actions to control costs of which further details are set out in the Business Review on page 22.

Liquidity risk

The Group is exposed to liquidity risks, including the risk that borrowing facilities are not available to meet cash requirements, and the risk that financial assets cannot readily be converted to cash without the loss of value.

Impact

Failure to manage financing risks could have a material impact on the Group's cash flows, earnings and financial position as well as reducing the funds available to the Group for working capital, capital expenditure, acquisitions, dividends and other general corporate purposes.

Action

The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group. The Group has also secured funding for Bozshakol and selected medium-sized projects. Further details are set out in the Financial Review on page 46.

Taxation

As the tax legislation in Kazakhstan has been in force for a relatively short period of time, tax risks in Kazakhstan are substantially greater than typically found in countries with more developed tax systems. Tax law is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. Tax regulation and compliance is subject to review and investigation by the authorities who may impose severe fines, penalties and interest charges.

Impact

The uncertainty of interpretation and application, and the evolution, of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's cash flows, earnings and financial position.

Action

The Group makes every effort to comply with tax legislation, and works closely with the tax authorities to ensure compliance. Further details are set out in the Financial Review on page 47.

Directors' Report: Business Review

FINANCIAL REVIEW

BASIS OF PREPARATION

The financial statements presented on pages 86 to 150 have been prepared in accordance with IFRS. The standards and interpretations adopted in the year are described on page 94. The accounting policies have been consistently applied to all years presented. As explained on page 39, the Kazakhmys Power Division and MKM have been classified as being held for sale at 31 December 2009. The MKM and Kazakhmys Power operations represent separate major business lines of the Group. As a result, these operations have been treated as discontinued operations at 31 December 2009. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax loss recognised on the re-measurement to fair value less costs to sell of the discontinued operations. Accordingly, the income and expenses of both MKM and Kazakhmys Power are reported separately from the continuing operations of the Group. The consolidated income statement for the prior year has been restated to conform to this presentation. The assets and liabilities of these divisions are also separately shown within the consolidated balance sheet as single line items within current assets and current liabilities. The consolidated balance sheet for the prior year has not been restated. The consolidated cash flow statement includes the cashflows of continuing and discontinued operations for both the current and prior years.

INCOME STATEMENT

A summary of the consolidated income statement is shown below:

\$ million (unless otherwise stated)	2009	2008
Continuing operations		
Revenues	2,404	3,276
Operating costs excluding depreciation, depletion, amortisation, mineral extraction tax and special items	(1,389)	(1,690)
Segmental EBITDA (excluding special items)	1,015	1,586
Special items:		
Less: impairment of property, plant and equipment	(50)	(120)
Less: impairment of goodwill	–	(46)
Less: impairment of mining assets	(23)	(126)
Less: provisions against inventories	(14)	(73)
Less: loss on disposal of property, plant and equipment	(1)	(1)
Less: mineral extraction tax	(164)	–
Less: depreciation, depletion and amortisation	(214)	(288)
Operating profit	549	932
Share of profits from associate	223	255
Profit before finance items and taxation	772	1,187
Net finance income/(expense)	256	(43)
Profit before tax	1,028	1,144
Income tax expense	(261)	(324)
Profit for the year from continuing operations	767	820
Discontinued operations		
(Loss)/profit for the year from discontinued operations	(214)	90
Profit for the year	553	910
Minority interests	1	(1)
Profit for the year attributable to owners of the Company	554	909
EPS – basic and diluted (\$)		
From continuing operations	1.44	1.67
From discontinued operations	(0.40)	0.18
	1.04	1.85
EPS based on Underlying Profit (\$)		
From continuing operations	1.02	2.31
From discontinued operations	0.11	(0.04)
	1.13	2.27

Revenues and EBITDA

The 2009 financial year witnessed a substantial recovery in the pricing of most of the Group's main products driven largely by governmental measures in response to the global financial crisis. The apparent bottoming out of the global economy, cutbacks in production and renewed strong demand for raw materials from China have also influenced commodity prices. The significant reduction in copper prices seen during the fourth quarter of 2008 eased at the beginning of 2009 with prices stabilising, but at levels well below the highs experienced in the last few years. These low prices proved to be short lived and copper prices started to increase in the second quarter of 2009 with a particular upward trend in the last quarter of the year. Copper closed the year at \$7,346 per tonne, 139% higher than the price at the start of the year. Significant increases in prices were also seen for zinc and silver which increased in price by 111% and 53% respectively, and gold maintained its strength during a year of uncertainty.

Copper cathode equivalent sales of 341 kt were 12% lower compared to 2008 reflecting lower production volumes following the suspension of mining activities at certain high cost mines at the end of 2008. Limited production from purchased concentrate also reduced sales but this was offset by a reduction in finished goods inventories at the start of the year. With lower sales volumes and copper prices, revenues from copper cathode equivalent sales fell from \$2,605 million in 2008 to \$1,711 million in 2009. The average realised price for copper cathode was \$5,024 per tonne, 3% lower than the LME price for the year as a higher proportion of sales took place in the first half of 2009 when the average realised copper price was \$4,024 per tonne compared to \$6,378 per tonne in the second half of the year.

Revenues from zinc metal and zinc metal in concentrate were in line with 2008 at \$146 million. Zinc metal sales fell by 78% to \$19 million following the suspension of activity at the zinc smelter in March 2009, but this was offset by an increase in zinc metal in concentrate sales which increased by 107% to \$127 million as zinc production benefited from the processing of stockpiled ore and improved recovery rates at the concentrators. Revenues from silver were in line with the prior year at \$251 million, and revenues from gold were up 17% to \$127 million reflecting higher prices and sales volumes.

Overall, revenues from continuing operations fell by 27% to \$2,404 million in 2009 primarily as a result of the 25% reduction in average realised copper price from \$6,714 per tonne in 2008 to \$5,024 per tonne in 2009 and lower sales volumes of copper cathode equivalent.

In February 2009 the National Bank of Kazakhstan announced that it would support the tenge, within a range of 3%, at a lower level of 150 KZT/\$, resulting in a devaluation of approximately 25%. Whilst the devaluation has a beneficial impact on the profitability of the Kazakhmys Copper mining business as its revenues are mostly based on US dollar metals prices and approximately 30% to 40% of its costs are denominated in tenge, there is an adverse impact on the profitability of the Kazakhmys Power business, which is included within discontinued operations, since its revenues and costs are largely denominated in tenge.

In response to the market conditions that existed at the end of 2008 and beginning of 2009, management successfully implemented a series of cost cutting measures in the operating businesses. Within the Kazakhmys Copper Division, the decision to suspend mining activities at certain high cost mines, productivity improvements at the concentrators and smelters and the phasing out of use of purchased concentrate in the production process resulted in substantial reductions in raw material costs compared to 2008. Furthermore, the impact of a lower consumer price index in Kazakhstan and reduced global mining industry inflation had a beneficial impact on input costs with cost pressures for fuel costs, mining consumables and employee costs diminishing. As mentioned above, the devaluation of the Kazakhstan tenge also improved the profitability of the Kazakhmys Copper business. The impact of the devaluation of the tenge may prove to be inflationary and could potentially push up input prices denominated in tenge in the short to medium term.

In January 2009, the Group commenced a hedging programme which was intended to cover production from the higher cost mines in the Zhezkazgan region such that the viability of these mines was protected in the event of a decrease in the copper price below \$3,000 per tonne. The hedges covered 90 kt, or approximately 30% of the estimated copper production for 2009, and established a price protecting floor and a cap to the price receivable on the hedged copper sales. During the first quarter of the year, the average copper price was between the floor and the cap and no settlement on the hedges was required. However, as the copper price began to rise above the cap in the second quarter, settlement of the hedges was required resulting in a cash outflow and an expense of \$129 million being recognised in the income statement. This contrasts against a \$143 million gain in 2008 from hedging activities when forward commodity contracts were used, in limited situations, to hedge against copper quotational period differences on the price fixations between intragroup purchases and sales to end users.

Group EBITDA (excluding special items) (\$ million)

2009	1,634
2008	2,056
2007	2,336
2006	2,308
2005	1,074

Special items

In light of developments impacting the Group's medium and major projects and the general economic environment experienced during 2009, 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 for continuing operations are:

- an impairment charge of \$50 million has been recognised in relation to property, plant and equipment within the Kazakhmys Copper Division primarily due to the curtailment of the Division's capital expenditure programme in the last 18 months and a focus on selected projects only;
- an impairment charge of \$23 million has been recognised in relation to the Kazakhmys Gold Division following a decision not to proceed with the Akjilga development project in Tajikistan in the foreseeable future as more economically attractive projects exist within the Group; and
- provisions against inventories includes an amount of \$14 million in respect of certain by-products held in stock at the end of the year which have been written down to the lower of cost and net realisable value reflecting a fall in the market value of these by-products.

Total special items for continuing operations amounted to \$88 million compared to \$366 million in 2008. Special items in respect of discontinued operations of \$256 million are explained on page 40.

Equity accounting

Following the share exchange with the Government and incremental market purchases of shares during the second half of 2008, the Group's shareholding in ENRC stands at 26%. As the Directors are of the view that the Group has the ability to exercise significant influence over the operating and financial policies of ENRC, the Group has accordingly equity accounted for its interest in ENRC.

The share of profits from the associate recognised in the consolidated income statement for the full year, net of tax, is \$223 million based on the unaudited results of ENRC for the year ended 31 December 2009 which were published on 24 March 2010. This contrasts against a figure of \$255 million in 2008 which arose from five months of equity accounted earnings only.

Under equity accounting, dividends received from ENRC of \$84 million during 2009 have not been recognised in the consolidated income statement, but are instead netted off against the carrying value of the investment in associate in the consolidated balance sheet.

Based on the 2009 final dividend announced by ENRC on 24 March 2010 of 6 US cents per share, the Group should receive \$20 million in June 2010.

Reconciliation of Group EBITDA (excluding special items)

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.

Following the change in tax legislation in Kazakhstan on 1 January 2009 which introduced the mineral extraction tax (MET), this tax is now excluded from the EBITDA (excluding special items) key financial indicator. The Directors believe that the exclusion of the MET provides a more informed measure of the operational profitability of the Group given the nature of the tax as further explained in the 'Taxation' section on page 38.

A reconciliation of EBITDA (excluding special items) by division is shown below:

\$ million	2009	2008
Segmental EBITDA (excluding special items)		
Continuing operations		
Kazakhmys Copper	1,027	1,597
Kazakhmys Gold	24	19
Kazakhmys Petroleum	(1)	(1)
Corporate unallocated	(35)	(29)
Total continuing operations	1,015	1,586
Discontinued operations		
Kazakhmys Power	120	42
MKM	76	(1)
Total discontinued operations	196	41
Total segmental EBITDA (excluding special items)	1,211	1,627
Share of EBITDA of associate¹	423	429
Group EBITDA (excluding special items)	1,634	2,056

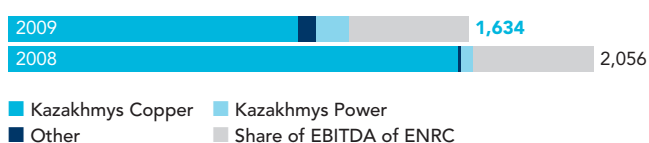
¹ The share of EBITDA of the associate excludes the mineral extraction tax of the associate.

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FINANCIAL REVIEW CONTINUED

Total segmental EBITDA (excluding special items) fell by 26% to \$1,211 million given the lower profitability of Kazakhmys Copper during 2009 compared to 2008, and despite the inclusion of a full year of earnings from Kazakhmys Power which was acquired in May 2008. Group EBITDA (excluding special items) fell by 21% to \$1,634 million. Included within Group EBITDA (excluding special items) is the Group's share of EBITDA of ENRC of \$423 million based on its published unaudited results for 2009. A full year of earnings from ENRC is included for 2009 compared to 2008 when the Group commenced equity accounting in August 2008.

Breakdown of Group EBITDA (excluding special items) (\$ million)



Net finance items

Net finance income for the year was \$256 million compared to a net finance expense of \$43 million in 2008. This difference is primarily due to the impact of the devaluation of the Kazakhstan tenge in February 2009. An exchange gain of \$336 million from continuing operations has arisen in the year as a result of the re-translation of US dollar denominated monetary assets and liabilities within the Group's Kazakhstan subsidiaries as a direct result of the devaluation, since the businesses in Kazakhstan have a tenge functional currency.

Furthermore, the Group has incurred interest charges of \$51 million during the year (2008: \$49 million) on the pre-export finance debt facility (PXF) which 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 thereby fixing the estimated cost of servicing a substantial proportion of the outstanding PXF balance at 2.08%, including margin, for 2009. These swaps had expired by 31 December 2009.

Record low US\$ LIBOR rates that were seen during 2009, combined with the lower average cash balances in the Group compared to 2008, has meant that interest income earned on cash and deposit balances fell to \$8 million from \$21 million in 2008.

Taxation

Mineral extraction tax

The Government of Kazakhstan introduced a new Tax Code which came into force on 1 January 2009. The new tax legislation reduced corporate income tax (CIT) rates over a number of years, with the CIT rate being reduced from 30% to 20% for the year ended 31 December 2009. Off-setting the reduction in CIT rates was the introduction of the mineral extraction tax which is similar in nature to the royalties that were levied prior to 1 January 2009. The MET is a revenue based tax based on the volume and metal content of extracted ore and global commodity prices and is determined largely independently of the profitability of operations. Given the significant increases in commodity prices in the second half of the year, particularly for copper, the Group has recognised an expense of \$164 million for the full year in relation to the MET within cost of sales, which compared to an expense of \$71 million for the first half of the year.

Transfer pricing

Included within the tax charge is \$28 million in respect of a transfer pricing provision for 2009. New transfer pricing legislation came into force on 1 January 2009 as part of the introduction of the new Tax Code. This new legislation removed the 10% safe harbour provision which was permitted under the previous transfer pricing legislation and has been replaced by the concept of the 'arm's length principle'. However, this new legislation does not fully reflect the arm's length concept which forms the underlying basis of transfer pricing legislation within many OECD countries. The Group has recognised a transfer pricing provision of \$28 million as at 31 December 2009 based on management's interpretation of the new transfer pricing legislation and the prevailing status of discussions with the tax authorities. The transfer pricing charge increases the Group's effective tax rate by 2.7% in 2009.

Excess profits tax

The new tax legislation also removed the tax stabilisation of subsoil use contracts which allowed the Government to amend the excess profits tax (EPT) methodology. Based on 2009 production and material flows within the Kazakhmys Copper Division, there is no EPT charge for the year, compared to a charge of \$28 million in 2008.

Deferred income tax

The income tax expense for the year includes a charge of \$7 million in respect of deferred income tax. This debit arises due to the enactment of new tax legislation within Kazakhstan in November 2009, effective from 1 January 2010, such that the corporate income tax rate for the years 2010-2012 has been frozen at 20%, rather than being gradually reduced from 20% in 2009 to 15% in 2011 as was previously expected under the Tax Code which was effective from 1 January 2009. The deferred tax liabilities within the Group's Kazakh businesses have been recalculated taking into account the higher corporate income tax rates resulting from the new Kazakh tax legislation for the years 2010-2012.

Other

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 6.0%.

Non-deductible expenses for 2009 of \$49 million are \$34 million higher than the prior year. \$26 million of the increase is due to the copper hedging programme within Kazakhmys LLC, such that no tax deduction is available for the \$129 million hedging loss given the non-deductibility of these losses under Kazakhstan tax legislation. The impact of the non-deductibility of these losses increased the Group's effective tax rate by 2.5% in 2009.

Withholding taxes of \$18 million have been recognised in 2009 in relation to the unremitted earnings of subsidiaries as at 31 December 2009, which are expected to be remitted to the UK in the future through dividend distributions from Kazakhstan. This factor contributed an additional 1.8% to the effective tax rate in 2009.

All-in effective tax rate

The table below shows the Group's effective tax rate as well as the all-in effective tax rate which takes into account the impact of the MET and removes the impact of special items and non-recurring items on the Group's tax charge. The all-in effective tax rate has also excluded the impact of the hedging gains and losses in 2008 and 2009, respectively, given that these are not expected to arise in the future.

\$ million (unless otherwise stated)	2009	2008
Profit before tax from continuing operations	1,028	1,144
Add: mineral extraction tax	164	–
Add/(less): hedging losses/(gains)	129	(143)
Add: special items	88	366
Less: foreign exchange gain arising from devaluation of Kazakhstan tenge	(336)	–
Less: share of profits from associate	(223)	(255)
Adjusted profit before tax from continuing operations	850	1,112
Income tax expense	261	324
Add: mineral extraction tax	164	–
(Less)/add: tax effect of special items, hedging losses/gains, and foreign exchange gain arising on devaluation of Kazakhstan tenge	(64)	11
Adjusted tax expense from continuing operations	361	335
Effective tax rate (%)	25.4	28.3
All-in effective tax rate (%)¹	42.5	30.1

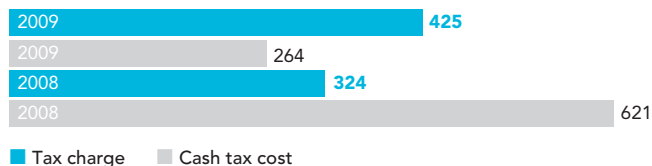
¹ All-in effective tax rate is calculated as the income tax expense plus the MET and removing the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for the MET, hedging gains/losses, special items and other non-recurring items and the share of profits from the associate.

Whilst the effective rate of tax for 2009 was 25.4% compared to a rate of 28.3% in the prior year, the all-in effective tax rate, which is a more representative tax rate on the recurring profits of the Group's managed businesses, was significantly higher at 42.5% compared to 30.1% in 2008 primarily as a result of the introduction of the MET.

During periods of low copper prices, the all-in effective tax rate is significantly higher than the effective tax rate as the MET is determined largely independently of the profitability of operations. However, as both the copper price and profitability of operations increase, the all-in effective tax rate decreases as the impact of the MET lessens, given its revenue-based nature. Whilst higher copper prices result in a higher absolute amount of taxes being levied, the all-in effective tax rate decreases.

Future tax charges are materially affected by the application of different taxes and tax rates in Kazakhstan. Although new tax legislation, effective from 1 January 2010, freezes the CIT rate within Kazakhstan at 20% for the years 2010-2012, with a phased reduction in rates of 17.5% for 2013 and 15% for 2014 and beyond, higher levels of MET will offset the benefit arising from the lower CIT rates. As explained above, the Group's all-in effective tax rate will be dependent on copper prices in the future given the nature of MET.

Tax charge and cash tax cost – CIT and MET (\$ million)



Discontinued operations

As explained above in the 'Basis of preparation' section on page 36, the Kazakhmys Power Division and MKM have been classified as being held for sale and as discontinued operations within the financial statements.

Following the announcement on 10 December 2009 that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a wholly owned subsidiary within the Kazakhmys Power Division, to Samruk for a consideration of \$681 million, the Directors have classified the entity as being held for sale and as a discontinued operation within the financial statements. The transaction completed in February 2010 and the Group has retained a 50% non-controlling interest in the entity which shall be accounted for as a joint venture after completion.

Furthermore, the Directors have decided to dispose of the Maikuben West coal mine, also within the Kazakhmys Power Division, following a change in the long-term strategy of the coal mine as a result of the sale of 50% of Ekibastuz GRES-1 LLP to Samruk. This entity has therefore been classified as an asset held for sale and as a discontinued operation within the financial statements.

Additionally, the Directors have decided to dispose of MKM given that the Group's strategy is to focus on natural resource opportunities within the Central Asian region. This business has therefore been classified as an asset held for sale and as a discontinued operation.

The profit after tax of Kazakhmys Power and MKM, together with impairment losses and any write down to fair value are included within the consolidated income statement as part of the loss for the year from discontinued operations. Prior to MKM and Kazakhmys Power being reclassified as assets held for sale, impairment reviews have been performed to write down the divisions to their recoverable amount. Once classified as an asset held for sale, a further write down is recognised to record the division at its expected fair value from a disposal. A summary of the loss/profit from discontinued operations is shown below, with the 2008 comparatives having been restated:

\$ million	2009	2008
Kazakhmys Power		
(Loss)/profit before tax of Kazakhmys Power excluding impairment loss	(10)	2
Impairment losses	(69)	(2)
Taxation (charge)/credit	(5)	131
(Loss)/profit for the year	(84)	131
MKM		
Profit/(loss) before tax of MKM excluding impairment losses	49	(41)
Impairment losses	(32)	(17)
Taxation credit	11	17
Impairment loss on re-measurement to fair value	(158)	–
Loss for the year	(130)	(41)
(Loss)/profit for the year from discontinued operations	(214)	90

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FINANCIAL REVIEW CONTINUED

Kazakhmys Power

Kazakhmys Power made a net loss before tax for the year of \$79 million. Included within this amount is a foreign exchange loss of \$53 million arising as a result of the devaluation of the Kazakhstan tenge in February 2009. An impairment loss of \$69 million has been recognised in order to write down the carrying value of Maikuben West LLP to its recoverable amount. No impairment loss has been recognised in relation to Ekibastuz GRES-1 LLP. Excluding the impact of the foreign exchange loss and impairment losses, the profit before tax of Kazakhmys Power would have been \$43 million.

Treating the impairment loss as a special item, the EBITDA (excluding special items) of Kazakhmys Power is \$120 million for 2009, compared to \$42 million for 2008. This increase is due to the inclusion of a full year of earnings from Kazakhmys Power for 2009 compared to only seven months for 2008 and the impact of higher tariff prices and a cost reduction programme within the business during 2009. These factors have been offset by the devaluation of the tenge which adversely impacted profitability.

Even though the disposal of Ekibastuz GRES-1 LLP was announced during 2009, and the cash proceeds of \$681 million were received by the Group in December 2009, since the disposal was conditional upon receiving shareholder approval and regulatory clearances which were only obtained in February 2010, the profit arising on disposal was recognised when all approvals were obtained and legal completion occurred i.e. in the 2010 financial year.

MKM

EBITDA (excluding special items) of MKM is \$76 million for 2009, compared to a loss of \$1 million for 2008. MKM's performance during 2009 has been adversely impacted by the economic weakness in Europe, its core marketplace. However, MKM's earnings under IFRS are also distorted by an inventory adjustment as a result of the combined impact of copper price fluctuations on the valuations of inventories and inventory levels (2009: positive impact of \$58 million, 2008: negative impact of \$48 million).

MKM made a loss before tax for the year of \$141 million. Included within this figure is an impairment loss of \$187 million arising as a result of writing down the business to its recoverable amount and subsequently re-measuring MKM's net assets to fair value. This impairment loss excludes provisions against trade receivables of \$3 million. Offsetting the write down of \$187 million is a \$27 million one-off deferred tax credit, taking the post-tax MKM write-off to \$160 million. The impairment loss and write down to fair value are treated as special items.

Underlying Profit and earnings per share

Profit for the year attributable to the owners of the Company from continuing operations decreased to \$768 million from \$819 million in 2008. 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 2009 and 2008.

The reconciliation of Underlying Profit from profit attributable to owners of the Company is set out below. The 2009 figures have been presented to show continuing operations separately from discontinued operations, with the prior year figures restated to conform to this style of presentation.

\$ million	2009	2008
Net profit attributable to owners of the Company from continuing operations	768	819
Special items:		
Impairment of goodwill	–	46
Impairment of property, plant and equipment	50	120
Impairment of mining assets	23	126
Provisions against inventories	14	73
Loss on disposal of property, plant and equipment	1	1
Foreign exchange gain arising on devaluation of Kazakhstan tenge:		
Managed businesses	(336)	–
Associate	(55)	–
Tax effect of non-recurring items:		
Managed businesses	52	–
Associate	11	–
Release of deferred tax liabilities:		
Impairment of Kazakhmys Gold	6	(32)
Change in tax rates on non-acquisition related deferred tax liabilities in Kazakhstan:		
Managed businesses	6	(20)
Associate	4	–
Minority interest effect of non-recurring items	1	(1)
Underlying Profit from continuing operations	545	1,132
Net (loss)/profit attributable to owners of the Company from discontinued operations	(214)	90
Special items:		
Impairment loss – MKM	187	16
Impairment loss – Maikuben West	69	–
Foreign exchange loss arising on devaluation of Kazakhstan tenge – Kazakhmys Power	53	–
Tax effect of non-recurring items	(45)	–
Change in deferred tax liabilities:		
Change in tax rates on Kazakhmys Power fair value adjustments	7	(126)
Underlying Profit/(loss) from discontinued operations	57	(20)
Total Underlying Profit	602	1,112

A description of the special items, the change in deferred tax liabilities and discontinued operations are explained on pages 37, 38 and 39 respectively.

\$ million (unless otherwise stated)	2009	2008
Net profit attributable to owners of the Company	554	909
Underlying Profit	602	1,112
Weighted average number of shares in issue (million)	535.1	490.3
EPS – basic and diluted (\$)	1.04	1.85
EPS based on Underlying Profit (\$)	1.13	2.27

Basic earnings per share decreased by 44% to \$1.04 from continuing and discontinued operations. Earnings per share based on Underlying Profit from continuing and discontinued operations was \$1.13 compared to \$2.27 for the prior year, a decrease of 50%. Earnings per share based on Underlying Profit from continuing operations decreased by 56% to \$1.02.

The reduction in both measures of EPS is as a result of the lower underlying profitability of the Group during the year, as well as an increase in the weighted average number of shares in issue which increased from 490.3 million in 2008 to 535.1 million in 2009 following the share exchange with the Government in July 2008.

Dividends

The dividend policy established at the time of Listing was for the Company to maintain a dividend policy which took into account the profitability of the business and underlying growth in earnings of the Group, as well as its cash flows and growth requirements. The Directors would also ensure that dividend cover is prudently maintained.

In light of the global economic environment and uncertainty over the sustainability of any recovery during 2009, together with the Group's need to meet funding requirements, no dividends were paid by the Company during 2009. Dividend payments of \$200 million were paid in 2008 which comprised 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).

Following the improvement in economic conditions with higher commodity prices being seen for the Group's products, the sharp reduction in the Group's net debt position and the funding which has been put in place for the Bozshakol project and the Group's medium-sized development projects, the Directors have decided to reinstate a dividend payment in respect of the 2009 financial year. Accordingly the Directors recommend a final dividend in respect of the year ended 31 December 2009 of 9.0 US cents per share (\$48 million) which reflects a 10.4% pay-out ratio of the Group's full year Underlying Profits as adjusted for the removal of ENRC's equity accounted earnings but including dividends received from ENRC during the year. Subject to approval of shareholders at the Annual General Meeting to be held on 14 May 2010, the dividend shall be paid on 18 May 2010.

Key financial indicators

The definitions of our key financial indicators are shown in the Glossary and these measures are set out below:

	2009	2008
Group EBITDA (excluding special items) (\$ million)	1,634	2,056
EPS based on Underlying Profit (\$)	1.13	2.27
Free Cash Flow (\$ million)	579	715
Return on Capital Employed (%) ¹	11	21
Net cash cost of copper after by-product credits excluding purchased concentrate (US\$/lb)	72	116

¹ From continuing operations only.

CASH FLOWS

A summary of cash flows is shown below:

\$ million	2009	2008
Segmental EBITDA	867	1,245
Impairment losses	385	400
Loss on disposal of property, plant and equipment	1	2
Dividends received from associate	84	38
Foreign exchange loss adjustment	26	(27)
Working capital movements	(216)	132
Interest paid	(63)	(70)
Mineral extraction tax paid	(120)	–
Income taxes paid	(144)	(621)
Net cash flows from operating activities	820	1,099
Sustaining capital expenditure	(241)	(384)
Free Cash Flow	579	715
Expansionary and new project capital expenditure	(187)	(310)
Interest received	10	28
Acquisition of subsidiaries, net of liquid funds and borrowings acquired	–	(1,157)
Capital transactions with shareholders	–	(121)
Dividends paid	–	(200)
Acquisition of associate	–	(918)
Payment of deferred consideration arising from business acquisition	(83)	–
Advance payment of deferred consideration arising from business acquisition	(102)	–
Payment received in advance of disposal of share of subsidiary	681	–
Proceeds from disposal of property, plant and equipment	14	17
Proceeds from disposal of non-current investments	–	14
Purchase of own shares	(7)	–
Other movements	(14)	(5)
Cash flow movement in net debt	891	(1,937)

Summary of the year

Lower earnings were the main driver behind the reduced cash flows from operating activities, but an adverse movement in working capital movements, primarily arising within MKM, offset by markedly lower tax payments, also reduced cash flows from operating activities compared to the prior year. Cash flows from operating activities were \$820 million for the year, a decrease of \$279 million compared to the prior year. Given lower levels of sustaining capital expenditure, Free Cash Flow, a key performance indicator of the Group's ability to translate earnings into cash flow, was a healthy \$579 million.

Working capital

Working capital levels for the Group increased by \$216 million during the year. This adverse working capital movement is primarily due to:

- an increase in work in progress within the smelters in Kazakhmys Copper in the last quarter of the year which will be processed into copper cathodes during 2010;
- negative final pricing adjustments on provisionally priced contracts at 31 December 2008 within Kazakhmys Copper of approximately \$50 million were paid to Chinese customers in January and February 2009 due to the sharp fall in copper prices at the end of 2008. This contributed to the adverse working capital movement in respect of trade and other payables within Kazakhmys Copper;
- an increase in the level of trade receivables within the Kazakhmys Copper Division given the sharp increase in commodity prices seen during the second half of the year; and
- within MKM the adverse working capital impact on inventory levels of \$102 million and trade receivables of \$16 million was largely commodity price driven.

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FINANCIAL REVIEW CONTINUED

Despite these adverse working capital movements, working capital levels are being tightly controlled and managed across all of the Group's businesses.

Interest cash flows

Interest paid during the year was \$63 million, \$7 million lower than in 2008. The impact of lower US\$ LIBOR interest rates during 2009 and the interest rate swaps that were taken out at the end of 2008 resulted in the average interest rate during the year on the Group's PXF being 2.08% compared to 3.92% in 2008. The impact of lower interest rates was offset by the payment of 12 months of interest on the PXF in 2009 compared to seven months in 2008, as the facility was drawn down in May 2008 to fund the acquisition of Kazakhmys Power.

Lower average cash balances throughout the year, coupled with the lower US\$ interest rates in 2009, also meant that interest income received on cash and deposits fell from \$28 million to \$10 million in 2009.

Income taxes and mineral extraction tax

The level of income taxes paid for the year was \$144 million which is significantly lower than the \$621 million paid in 2008. This sharp reduction is primarily as a result of the lower earnings of the Group for the year and the corresponding level of payments on account being made to the Kazakhstan tax authorities. In addition, at 31 December 2008 Kazakhmys Copper had an income tax receivable balance of approximately \$100 million as a result of the payments on account being made during 2008 not taking into account the sharp reduction in profitability seen in the last quarter of the year. Payments on account for the first quarter of 2009 continued to be based on the significantly higher level of earnings for 2008, with agreement being reached with the tax authorities in the second quarter that no further payments on account would be required until the tax receivable balance had been utilised. Given the increase in commodity prices and higher profitability of Kazakhmys Copper in the second quarter and thereafter, this income tax receivable balance was fully utilised in the second half of the year and payments on account recommenced.

In addition to the income taxes paid, \$120 million of taxes were paid in respect of the MET. Of the total MET expense recognised of \$164 million, \$44 million remained unpaid at the year end, and this was paid in the first quarter of 2010.

Capital expenditure

As a result of the market conditions that existed at the end of 2008, capital expenditure during the year was sharply curtailed; sustaining capital expenditure was \$143 million lower at \$241 million compared to the prior year, and expansionary and new project capital expenditure was \$123 million lower at \$187 million. Existing supply contracts were also renegotiated in light of the economic environment which also contributed to a reduction in capital expenditure across the year.

Despite this reduction in capital expenditure, major items of expenditure during the year included expenditure on the pre-feasibility studies on Aktogay and Bozshakol, expenditure on the Zhezkazgan and Balkhash smelters to improve recovery rates, ramping up of the West Nurkazgan underground mine which commenced mining operations in February 2009, purchase of essential new machinery at mines to maintain operations, the overhaul at Unit 5 and initial expenditure on the rehabilitation of Unit 8 at Ekibastuz GRES-1, and continued exploration work within Kazakhmys Petroleum.

Investing cash flows

The Group paid \$3 million in January 2009 as deferred consideration relating to the Kazakhmys Power acquisition. Furthermore, as explained below, on termination of the management contract of the Ekibastuz GRES-1 power plant and Maikuben West coal mine, the Group paid an additional \$80 million in April 2009 under the earnout agreement relating to the 2008 financial year. The Group paid a further \$102 million under the termination agreement in October 2009 by cash collateralising early a standby letter of credit to AES Corporation (AES).

Payment of \$681 million was also received in respect of the disposal of 50% of Ekibastuz GRES-1 LLP to Samruk as discussed below in the 'Discontinued operations' section on page 43.

Dividends received

The Group received dividends of \$84 million from ENRC in 2009, compared to \$38 million in 2008. As explained on page 37, these dividends have been credited against the carrying value of the investment in ENRC rather than being included within earnings.

Reconciliation of Segmental EBITDA to Free Cash Flow (\$ million)

1		867
2		385
3		26
4		(216)
5		(63)
6		(144)
7		(120)
8		84
9		(241)
10		579

- 1 Segmental EBITDA
- 2 Write-offs, impairment losses and fixed assets disposal losses
- 3 Foreign exchange loss adjustment
- 4 Working capital movements
- 5 Interest paid
- 6 Income taxes paid
- 7 Mineral extraction tax paid
- 8 Dividends received from associate
- 9 Sustaining capital expenditure
- 10 Free Cash Flow

BALANCE SHEET**Summary of movements**

Equity attributable to owners of the Company was \$6,582 million at 31 December 2009, a decrease of \$895 million compared to the balance as at 31 December 2008. Whilst the Group has been profitable for the year, the impact of the devaluation of the tenge has given rise to a non-cash foreign exchange loss within equity of \$1,133 million primarily due to the retranslation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

A summary of capital employed is shown below:

\$ million (unless otherwise stated)	2009	2008
Equity attributable to owners of the Company	6,582	7,477
Minority interests	13	20
Borrowings	1,650	2,200
Capital employed	8,245	9,697
Profit before finance items and taxation before special items¹	860	1,553
ROCE (%)¹	11	21

¹ From continuing operations only.

ROCE decreased from 21% in 2008 to 11% in 2009 primarily due to the lower earnings within the Group and the impact of equity accounting for ENRC whereby equity accounted earnings for 2009 were \$223 million while the investment had a carrying value in the consolidated balance sheet of \$3,917 million at 31 December 2009.

ENRC

The Group's 26% investment in ENRC is shown within investment in associate in the consolidated balance sheet and has a book value of \$3,869 million at 31 December 2009 compared to \$4,045 million at 31 December 2008, as the Group's share of equity accounted earnings of \$223 million for the year has been offset by \$84 million of dividends received from ENRC in 2009 and the net share of losses of the associate recognised within equity of \$310 million. Most of these losses relate to the non-cash foreign exchange loss arising on the devaluation of the tenge and the resulting impact on ENRC's net assets. At 31 December 2009, the ENRC shareholding had a market value of \$4,879 million based on the public price quotation on the London Stock Exchange.

Net debt

Net debt consists of cash and cash equivalents, current investments and borrowings. A summary of the net debt position of continuing operations is shown below:

\$ million	2009	2008
Cash and cash equivalents	903	540
Current investments	58	32
Borrowings	(1,650)	(2,200)
Net debt¹	(689)	(1,628)

¹ Excludes MKM and Kazakhmys Power for 2009.

The Group's net debt position (net of capitalised arrangement fees of \$12 million) stood at \$689 million at 31 December 2009 compared with \$1,628 million at 31 December 2008. The reduction in net debt is primarily due to the receipt of \$681 million in December 2009 prior to completion of the disposal of 50% of Ekibastuz GRES-1 LLP to Samruk in February 2010. The net debt of MKM and the Kazakhmys Power Division at 31 December 2009 was \$115 million.

Whilst net debt levels initially increased at the beginning of 2009 as commodity prices remained depressed, in addition to the \$681 million received from Samruk, the beneficial impact of stronger commodity prices seen during the second half of the year, tight working capital management, the curtailment in the capital expenditure programme and dividend receipts from ENRC had the effect of reducing the overall net debt position. Monthly repayments under the PXF of \$44 million commenced in March 2009 with \$438 million of capital being repaid during the year, thereby reducing the outstanding balance drawn under the PXF to \$1,662 million at 31 December 2009. Repayments will continue until March 2013.

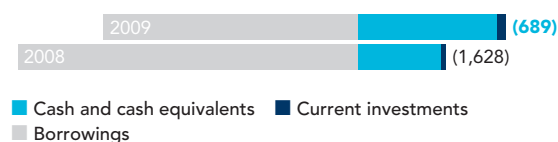
On 26 August 2008 the Group signed a \$200 million revolving credit facility with a group of banks for general corporate purposes and to provide standby liquidity. On 30 March 2009 the facility was reduced to \$150 million and extended to 31 March 2010. On 26 March 2010 the \$150 million facility was extended for an additional year to March 2011. The facility has remained undrawn since its inception. A further one year revolving credit facility for \$100 million was signed on 11 March 2010 with a maturity date in March 2011, thereby taking the total revolving credit facilities available to the Group to \$250 million as at 29 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 2009, \$776 million of cash and current investments were held in the UK, with \$181 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.

On 30 December 2009, the Group announced that it had arranged up to \$2.7 billion of loan facilities with China Development Bank (CDB) and Samruk, allocated from a \$3.0 billion financing line agreed between CDB and Samruk. Of the \$2.7 billion arranged for Kazakhmys, facility agreements were signed for \$2.1 billion on 30 December 2009, and for a further \$200 million on 12 January 2010, for the development of the Group's projects at Bozymchak and Bozshakol and other development projects, with the balance of \$400 million remaining available over the next three years.

Analysis of net debt (\$ million)



Discontinued operations

As explained above in the 'Basis of preparation' section on page 36, the Kazakhmys Power Division and MKM have been classified as being held for sale and as discontinued operations within the financial statements. As a result of this classification, the assets and liabilities of these divisions are separately shown within the consolidated balance sheet as single line items within current assets and current liabilities. Current assets includes \$1,615 million in respect of assets classified as held for sale, which is primarily made up of \$443 million of goodwill and \$801 million of property, plant and equipment, which relates to Kazakhmys Power, inventories and trade receivables of \$187 million and \$121 million, respectively, within MKM, and cash of \$42 million within Kazakhmys Power. Current liabilities include \$460 million of liabilities directly associated with assets classified as held for sale, and is primarily made up of borrowings within MKM of \$157 million, provisions within Kazakhmys Power of \$109 million and a deferred tax liability of \$110 million, of which \$105 million relates to Kazakhmys Power.

Kazakhmys Power

As explained in the 'Discontinued operations' section on page 39, following the announcement on 10 December 2009, the Group agreed to dispose 50% of Ekibastuz GRES-1 LLP, a wholly owned subsidiary within the Kazakhmys Power Division, to Samruk for a consideration of \$681 million. Since the transaction did not complete until February 2010, when all necessary approvals had been received, at 31 December 2009, a liability of \$681 million is included within trade and other payables as part of continuing operations.

In March 2009, the Group agreed the early completion of the management contract with AES, such that management of the Ekibastuz GRES-1 power plant and Maikuben West coal mine transferred to the Group during the second quarter of the year. The early completion agreement included an earnout of \$80 million for the 2008 financial year which was paid in April 2009, and a payment of \$102 million which was due for payment in January 2010. The \$102 million payment was covered by a standby letter of credit to AES which had to be cash collateralised by 15 December 2009. In light of surplus funds being held by the Group, the letter of credit was cash collateralised early in October 2009, thereby extinguishing any remaining liabilities due to AES as a result of the acquisition of Kazakhmys Power in May 2008.

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FINANCIAL REVIEW CONTINUED

MKM

In June 2009, the MKM trade finance facility was refinanced with a syndicate of banks. The size of the facility was reduced from €230 million to €170 million, due to lower copper prices at the time of refinancing and more efficient management of inventory. The new trade finance facility is for a three year period with interest being payable on drawn balances at a rate of EURIBOR + 3.00%. The facility amortises over a 12 month period after June 2011 based on the drawn balance as at 31 May 2011. At 31 December 2009, borrowings under this facility were \$157 million, up from \$121 million at 31 December 2008 as a result of higher working capital requirements due to rising copper prices towards the end of the year.

TAXATION

Tax strategy and risk management

The Group is subject to taxation in the UK and the various foreign countries in which it operates. Tax legislation of the jurisdictions in which the Group operates differs and is subject to interpretation by management and the government authorities, and as such, creates a risk of non-compliance with specific tax requirements. Whilst the Directors believe that the Group is in substantial compliance with tax legislation and contractual terms entered into that relate to tax, the absence of established case history, the complexity and judgemental nature of tax legislation in certain jurisdictions result in additional risk for the Group. Specific areas of interpretation include the determination of the mineral extraction tax expense for each subsoil contract, the applicability of excess profits tax to the Group's mining and processing operations and the structuring of cross border transactions, particularly in respect of the application of transfer pricing policies.

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

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

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risks, and has therefore adopted a tax strategy, which has been approved by

the Board, that is aimed at achieving the objectives, thereby aligning it with the Group's long-term strategy:

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

Total tax contribution

During 2009, the Group paid \$517 million (2008: \$861 million) in taxes across the countries in which it has a presence. Company taxes, such as corporate income taxes, the mineral extraction tax, excess profits tax, royalties and employer taxes, comprised \$420 million (2008: \$802 million) of this total. In addition, the Group indirectly contributed \$97 million (2008: \$59 million) in employee taxes and withholding taxes primarily on interest payments and dividends, which the Group collected on behalf of government authorities and paid over to them.

Taxes paid/(received) directly to/by governments by category and region

\$ million	Central Asia ¹	UK	Germany	2009 total	2008 total
Taxes paid/(received)					
Corporate income taxes (including excess profit tax)	167	(23)	–	144	621
Mineral extraction tax	120	–	–	120	–
Payroll taxes (employer's obligations)	37	1	10	48	57
Customs and stamp duties	23	–	–	23	49
Taxes on properties	25	–	–	25	26
Royalties and environmental payments	57	–	–	57	46
Miscellaneous taxes	3	–	–	3	3
	432	(22)	10	420	802
Taxes collected and remitted					
Withholding taxes on dividends, interest, services	13	–	–	13	4
Payroll taxes (employee's obligations)	62	5	17	84	55
	75	5	17	97	59
Total	507	(17)	27	517	861

¹ Includes Kazakhstan and Kyrgyzstan

FINANCIAL RISK MANAGEMENT

Background

The Board is committed to maintaining a high standard of financial risk management within the Group. The Group's policies with regard to financial risk management are clearly defined and consistently applied.

The Group's principal business is the identification, extraction and processing of mineral resources. The Group does not engage in trading activities and sales contracts are generally negotiated with trading companies or end users. The pricing basis applied in all sales contracts is referenced to prevailing market benchmarks such as the 'official' settlement prices quoted by the London Metals Exchange (LME). In general, the policy of the Group is not to hedge the underlying price exposure to its principal commodities, although in periods of high uncertainty or volatility the Group may consider some hedging of revenue and cost items in order to reduce volatility or risk on the Group's cash flows. The Board may in certain circumstances authorise commodity hedging in order to guarantee the longer-term viability of certain marginal cost operations or to satisfy the specific covenant requirements of independently financed development projects. This was the case in early 2009 when a short-term 'collar' hedge programme on copper prices was entered into at a time when the outlook for copper prices was highly uncertain and vulnerable on the downside. The hedge programme extended a maximum of 12 months through to the end of December 2009. Further details of the hedge programme are set out above in the 'Revenues and EBITDA' section on page 36.

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

The Group has an investment of 26% in ENRC, a company which is also exposed to similar financial risks as shown below. The impact of these risks on ENRC will impact on its dividend stream and its own market capitalisation.

Responsibility for financial risk management is undertaken primarily by the Group's centralised Treasury function, operating under oversight of a Treasury Committee which is chaired by the Chief Financial Officer.

The significant risks identified by Kazakhmys that could materially affect the Group's financial conditions, performance, strategy and prospects are set out on pages 33 to 35. Details of the Group's system of internal control is set out on page 67.

Financial risks

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

Commodity price risk

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

The Group manages potential downside commodity price risk by focusing on maintaining its low cost producer status and also through the wider strategy of revenue diversification. Management closely monitors the impact of fluctuations in commodity prices on the business and uses conservative pricing assumptions and sensitivity analysis for its forecasting and investment appraisals.

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

The Power business positions the Group as a significant net generator in the Kazakhstan power market. The Kazakh power market has a predominance of large industrial electricity users focused on the natural resource sector, and consequently, electricity demand tends to broadly follow the commodity cycle. Power tariffs are derived through a complex interaction of regional demand and supply imbalances, tempered by specific regulatory interventions to minimise the inflationary pressure on domestic electricity users. The Group sells its power to a mix of wholesale and industrial customers through directly negotiated bilateral contracts.

Foreign currency risk

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

Whilst there is a strong correlation between many mining input costs and the US dollar, a significant portion of the mining business' operating costs are denominated in local currencies, particularly the Kazakhstan tenge. Rates of exchange for these currencies relative to the US dollar could fluctuate significantly and may materially impact the profitability of the underlying operations and the net assets of the Group.

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

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

Interest rate risk

The Group's interest rate management policy is generally to borrow and invest at floating interest rates. In some circumstances, an element of fixed rate funding may be considered appropriate. Hedging via interest rate swaps or similar instruments may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical averages.

Directors' Report: Business Review

FINANCIAL REVIEW CONTINUED

Counterparty credit risk

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

The Group's mining business protects its exposure to customer credit risk by maintaining strong business relationships with customers and through a combination of documentary credit instruments and requiring payment prior to delivery. Within the Kazakhmys Copper Division, cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are made under letters of credit which are obtained prior to delivery and transfer of title of the goods. MKM manages its customer credit risk with debtor insurance. The Kazakhmys Power Division receives cash up front or has short payment terms depending on the nature of the customer. The Kazakhmys Gold Division has a single long standing customer with short payment terms which is agreed via an annual sales contract.

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

The Group must maintain a level of cash and deposits in Kazakhstan with local branches of international financial institutions and well established local Kazakhstan banks. The Group limits its local cash and deposits to working capital requirements and transfers surplus funds to banks mainly in the United Kingdom.

Liquidity and capital management

The Group's over-riding objectives with regard to managing its liquidity and capital structure are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to lower the overall cost of capital.

The Group does not have a target debt/equity ratio, but has determined a maximum debt capacity based on a ratio of long-term 'normalised' EBITDA which the Board believes establishes a sustainable level of gearing through the commodity cycle. This ratio is reviewed in conjunction with market conditions and prevailing commodity prices in order to ensure an efficient capital structure that is balanced against the risks of carrying excessive leverage.

The Group maintains back-up liquidity for debt maturing within 12 months by way of committed revolving credit facilities totalling \$150 million and by maintaining cash on the balance sheet.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES**Summary**

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for the Directors to exercise judgement and to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from the estimates and assumptions used.

Set out in note 2(h) on page 95 are the key judgements which the Directors believe are likely to have the most significant effect on the amounts recognised in the financial statements. Information about significant areas of estimation uncertainty is also highlighted in that note. The following summary provides more information about the critical accounting policies (as opposed to specific judgements and estimates set out in note 2(h)) that could have a significant impact on the results of the Group and should be read in conjunction with the notes to the financial statements.

Impairment

The Group reviews the carrying value of its non-current investments to determine whether there is any indication that those assets are impaired. The assessment of whether an indicator of impairment has arisen can require considerable judgement, taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. In making these assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of those assets, or CGUs, is measured at the higher of their fair value less costs to sell and value in use and requires significant estimates and assumptions to be made about future cash flows. If the carrying amount of the cash-generating unit or asset exceeds its recoverable amount, then an impairment provision is recognised to write down the carrying value of the cash-generating unit or the asset to its recoverable amount.

Management applies judgment in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

Notes 5 and 8 commencing on pages 104 and 116, respectively, show the impairment charges recognised in the year. Significant assumptions made in performing the impairment testing of goodwill are shown in note 16 on page 124. Changes in these assumptions may alter the results of the impairment testing, impairment charges recognised in the income statement and the resulting carrying values of assets.

Equity accounting

At 31 December 2009, the Group owned 26.0% of ENRC PLC, a Kazakhstan-based mining company listed on the London Stock Exchange. The investment has been recorded as an associate and accounted for under the equity method as the Group has the ability to exercise significant influence over ENRC as prescribed by IAS 28 'Investments in Associates'. The Group's interest in the net assets of ENRC is included in 'Investments in associates' in the consolidated balance sheet and its interest in the results of ENRC, net of tax, is included in the consolidated income statement in 'Share of profits from associate' below operating profit. The Directors have applied judgment in determining that the Group has the ability to exercise significant influence over ENRC.

Useful economic lives

The Group's mining assets, classified within tangible assets, are depreciated using the unit of production method over the estimated economically recoverable reserves to which they relate, or over a shorter period prior to the depletion of the reserves having regard to the asset's physical life limitation. The estimation process for recoverable reserves is complex and involves significant judgement

and assumptions relating to the life of the mine and ore reserves may change when new information becomes available. These include assumptions as to grade estimates, recovery rates, commodity prices, exchange rates, production costs, capital costs, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions are accounted for prospectively as they could affect future depreciation rates and carrying values.

The majority of other items of property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and any changes could affect prospective depreciation rates and asset carrying values.

Contingencies

Material contingencies facing the Group are set out in note 34 of the financial statements commencing on page 142. A contingent liability arises where:

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

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

Taxation

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

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





Directors' Report: Business Review

RESPONSIBILITY

50 Corporate Responsibility



ASTANA COLLEGE

A new college for orphans, where students learn skills for employment and living. Kazakhmys has the largest social spend of any company in Kazakhstan.

Directors' Report: Business Review

CORPORATE RESPONSIBILITY

Our business contributes to local communities and wider society by providing vital resources for social and economic development, and by creating wealth and employment in remote and underserved communities. We are a major contributor to the economy of Kazakhstan and provide substantial support for Government infrastructure and services at a local level.

We fully understand that, alongside providing these benefits, we must operate responsibly by providing fair, safe and healthy workplaces, protecting the environment and developing communities. Doing so will directly enhance shareholder value, our primary objective, by increasing access to capital and lowering operational costs. Operating responsibly will also boost our reputation and maintain the cooperation of local communities, as well as helping us attract and retain the best employees.

We continue to develop our data collection systems for corporate responsibility, so that reporting is in line with international standards. Unless otherwise stated, the information within this report is for our Copper and Power Divisions, which in 2009 represented 96% of our total workforce and 70% of turnover.

MANAGING CORPORATE RESPONSIBILITY

Good health, safety and environmental (HSE) management is not just responsible, it is essential for efficient, cost-effective operations. As a UK-listed company, our shareholders expect our management practices to meet international standards, and we are working hard to ensure this is the case. As a minimum we comply with the law in each country where we operate. For instance, Kazakhstan law stipulates limits for emissions to air and water, contractual obligations to employees, social investments under licence agreements, and standards of health and safety. We go beyond compliance where practicable. Our approach is to manage HSE risks at a local level, with oversight from the Group.

Organisation and responsibilities

The Board of Directors has a Group HSE Committee, led by the Senior Independent Director, Philip Aiken. This oversees the implementation of HSE policies, sets related standards, monitors performance and guides operational management. The Committee meets three times per year, always combining formal meetings with site visits.

Our Group Head of HSE, who in 2009 reported to the Development Director, coordinates the implementation of HSE policies and systems throughout the Group and advises the Group HSE Committee on progress.

A Fatal Accident and Serious Incident Review Panel assesses each fatality and serious incident investigation and the action taken as a result. This panel comprises of the Group HSE Committee, the Chief Executive, relevant senior managers and Jeff Smith, a former chairman of Wardell Armstrong LLP, an independent safety expert.

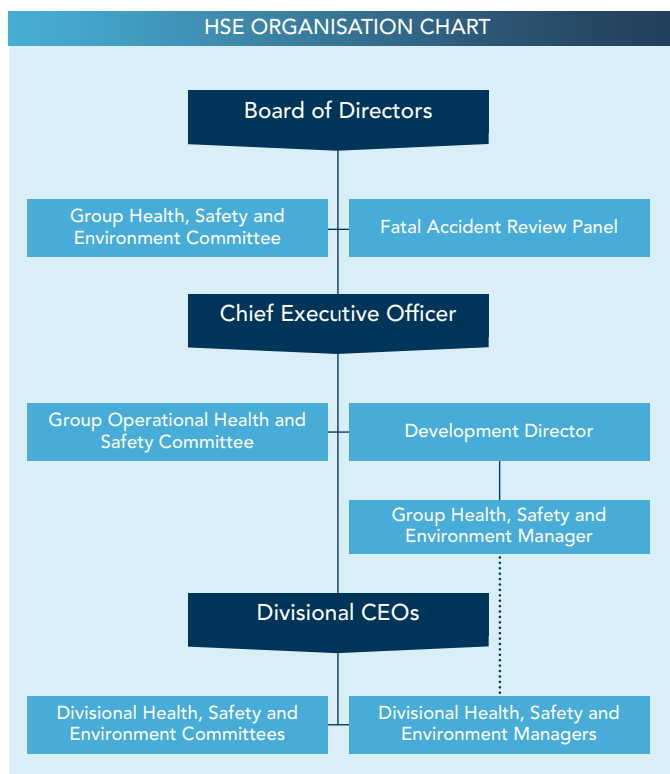
Each of our businesses has an operational HSE committee chaired by its general manager and comprising senior operational and HSE managers. These operational committees are responsible for developing policies and systems, reviewing incidents and improving performance. The Copper Division's committee met three times in 2009, and discussed items including occupational injury and illness rates; safety and environmental controls, training and certification; and disciplinary action taken in response to poor safety performance.

Divisional HSE teams implement our policies and systems on a day-to-day basis. Every employee is responsible for their own safety, for others affected by their actions, and is required to follow our HSE policies and procedures at all times.

Policies and management systems

Each division has HSE policies in place which describe their commitments and responsibilities in these areas. These are based on guiding principles agreed at Group level. The Copper Division is in the process of integrating its management systems for health and safety and environment, and is recruiting specialists to do so effectively. As part of this work, the East Region has developed a new HSE management structure, which it plans to test in 2010. If this model proves successful we will roll it out across the Copper Division.

At the end of 2009, 17 facilities were certified to the international environmental management standard ISO 14001, of which seven received their certification in 2009. Fifteen copper sites held the OHSAS 18001 health and safety certificate, the same number as in the previous year. Implementing the standard has not had a noticeable impact on reducing fatalities and, whilst we continue to ensure our management systems reach international standards, we do not plan to pursue further formal certification at this stage. We believe it is better to focus our efforts and investment on operational measures to directly improve performance.



In 2009, we began to develop a broad set of key performance indicators (KPIs) for measuring our progress on corporate responsibility. We plan to start measuring these KPIs over the course of 2010 and will begin reporting on them when data is available.

HEALTH AND SAFETY

Mining and processing copper and minerals involves working with large, heavy equipment, explosives and hazardous chemicals – often underground and sometimes at extreme temperatures. Our employees also experience common workplace hazards from driving vehicles, working at heights and operating machinery.

We believe it is challenging but entirely possible to prevent accidents, as long as the right approach and management systems are in place and sufficient equipment and training provided. Our long-term ambition is to provide a safe workplace free from injuries and illness, though we acknowledge that this will require considerable management focus and investment.

Fatalities

We deeply regret that 15 employees lost their lives in 14 separate incidents at Group operations in 2009, a rate of 2.4 fatalities per 10,000 direct employees. Thirteen of these were in the Copper

Division, one in the Power Division, and one in the Gold. Two contractors in our Power Division also sadly died. We will report contractor fatalities across the Group in the 2010 Annual Report.

Rock falls were the most common cause and led to eight deaths. See the case study below for examples of our efforts to reduce this kind of incident. Four fatalities involved moving machinery. There was a substantial reduction in falls from height, the primary cause of fatalities in 2008.

While every death is a tragic loss, there has been a 53% decrease in the number of fatalities since 2008. Our operations investigated every fatal incident and serious incident and reported their findings to the Group HSE Committee and, where appropriate, to the Fatal Accident and Serious Incident Review Panel. Our fatality and serious incident investigation reports comprise a full description of the incident including photographs and sketches, plus an analysis of the work area, procedures followed and protective equipment used. This information is used to identify the root cause of the incident and preventative measures for the future. The reports are sent to the divisional Chief Executives and HSE committee chairman within 48 hours of completing the investigation.

COMMITTED TO RESPONSIBILITY



PREVENTING ROCK FALL

Our operations are introducing new technologies to prevent rock falls and roof collapses – the most common cause of fatalities in our operations.

For example, we have been working with mining engineers Minova CarboTech on ways to strengthen rock. Our Artemyevsky and Orlovsky mines are testing Minova's roof-bolting systems for tunnelling, as well as sealants and resins for filling cavities and backfilling behind arch supports. The rock surrounding both mines is unstable, increasing the risk of roof falls after blasting or down-time. We usually backfill the dome folds resulting from these rock falls with materials such as concrete and timber, but roof collapses can still occur. In 2009, this led us to suspend some operations for over two months, but work resumed after backfilling with Minova's Carbofill phenolic resin foam,

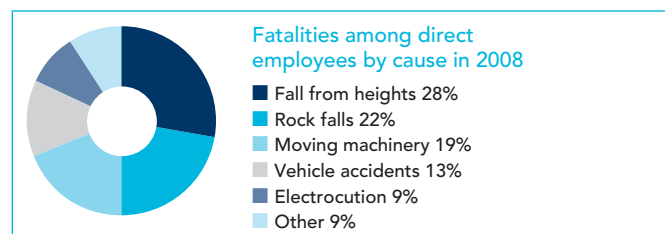
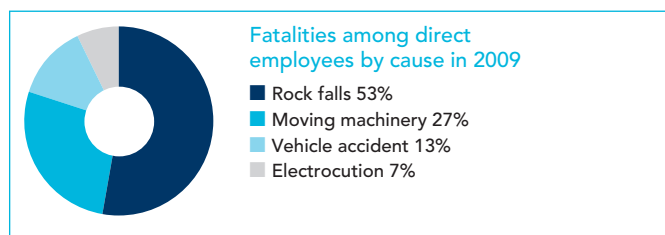
reinforced by metal arch supports. One square metre of this solidifying foam can support up to 12 tonnes of rock, substantially reducing the risk of rock falls and roof collapse.

In 2009, we installed a seismic monitoring system at our Zhomart mine to identify changes in the stress-state of the rock, caused by mining. We have used a similar system at Zhezkazgan since 2007, where it has forecast all subsequent rock falls and collapses of any significance. The Zhomart mine's system can record even small fractures induced by mining. The underground and surface sensors record around 60 signals a day, which we use to identify the coordinates of fractures and assess changes in the rock. This allows us to determine trends in the spread of rock fractures and predict problems before safety is compromised. We plan to install seismic monitoring at mines in other regions, starting in 2010 at our Orlovsky mine in the East Region, which is particularly prone to rock bursts.

Directors' Report: Business Review

CORPORATE RESPONSIBILITY CONTINUED

We attribute the reduction in fatalities to improved production controls, a greater emphasis on management responsibility and an increase in the number of site inspections. We carried out 2,759 site inspections in 2009 and stopped operations on 830 occasions as a result of the safety violations found. We carried out disciplinary proceedings with 1,975 employees in relation to these violations, and 49 employees lost their jobs. We recognise that serious injuries and fatalities can cause both emotional and financial difficulties to employees and their families, and we provide financial support to the families of the victims of fatal accidents.



Injuries

We record work-related accidents in line with Kazakhstan's regulatory reporting requirements. We are in the process of introducing the industry standard lost-time injury frequency rate, and will report this figure when it is available. There may be an initial rise in the number accidents reported, primarily as a result of improved safety training and greater awareness of the need to report incidents.

MKM recorded an injury frequency rate of 15 per million hours worked in 2009, down from 34 in 2008.

Safety culture

A safety culture built on training and awareness is fundamental to reducing accidents. Our health and safety policies are available in English, Russian and Kazakh, and each employee receives a pocket guide explaining 16 mandatory safety rules. During 2009, 10,440 employees received safety training, including 8,795 manual workers and 1,645 engineers and technicians.

In 2009, we reported a goal of training all senior managers and engineers in the NEBOSH occupational safety and health certificate. We now plan, however, to introduce an internal certification based on the NEBOSH qualification. We have invited an external specialist to develop an internal, mining-specific certificate in 2010, and to train up to 20 of our managers, who will pass on their training to their colleagues.

In 2009, the Copper Division introduced a five-year health and safety management plan to reduce hazards, improve performance and further embed a safety culture. The first phase involves reviewing our approach, structure and management system to ensure we systematically identify, assess and control all risks. Once this is complete, operational sites will develop and implement their own management plans within six months, and these will be approved by the Group and Copper Division HSE departments.

These site-specific plans will detail activities and define timetables and responsibilities for completion, as well as the required budget and resources. The Copper Division operational HSE committee is in the process of identifying five priority projects for improving performance,

and will report their progress at Group HSE Committee meetings during 2010.

Our Zhomart copper mine invested almost \$3 million to improve safety in 2009. The mine purchased new underground vehicles and provided specialist training and certification for their operators, who then pass on their knowledge to apprentices working with them. The new vehicles are soundproof and air-conditioned, and are fitted with additional lighting and rear-view cameras to improve visibility. The mine also built an underground service station for the vehicles, which has automated many hazardous maintenance tasks to further improve safety.

Occupational health

Our aim is not only to prevent occupational ill health occurring, but to improve the health and wellbeing of employees, contractors, their families and communities. All employees receive medical examinations on recruitment and then on an annual basis, to prevent occupational diseases and detect and treat those that do occur at an early stage. We pay particular attention to employees whose work exposes them to health risks such as dust-induced lung disease and hand-arm vibration syndrome.

The Copper Division has an occupational disease rate of 4.3 cases per 1,000 employees, and recorded 182 new cases in 2009. The shaft-sinking department has the highest rate of occupational illness, with 14.6 cases per 1,000 employees. The professions most likely to experience occupational disease are tunnellers (23 cases per 1,000 employees), truck drivers (21 cases per 1,000 employees) and blasters (15 cases per 1,000 employees).

Most work-related illness in 2009 related to manual handling and spinal micro-trauma from riding in vehicles on uneven surfaces. We recorded 65 cases of chronic radiculopathy, a nerve problem that causes pain and numbness. Exposure to mine dust is the next most common cause of occupational disease, leading to 55 cases of silicosis and chronic bronchitis in 2009. We will be upgrading respirators across our facilities in 2010, to reduce the occurrence of respiratory disease.

In 2009, the Copper Division developed a three-year health protection programme to ensure all facilities meet the requirements of our health and safety policies. We are recruiting seven occupational health specialists across the Division to help prevent, diagnose and treat work-related illnesses. Future plans include establishing a dedicated medical committee and the introduction of a standardised employee health monitoring system. The programme will ensure all sites have sufficient first-aid training, underground ambulance transport for emergency medical aid, and modern equipment in their health units. We also plan to establish rehabilitation centres for employees with work-related injuries and occupational diseases.

2010 commitment

- Identify five priority projects within the Copper Division for improving safety performance.

EMPLOYEES

Kazakhmys is one of Kazakhstan's largest employers, with our 61,629-strong workforce representing around 0.8% of employed people in the country. We aim to provide good working conditions, to treat employees with respect and uphold their human rights at all times.

Each division has employment policies appropriate to the cultural and legal requirements of its country of operation. These policies cover all aspects of employment and are designed to recruit and retain talented and motivated employees across the company.

Pay and benefits

Competitive remuneration is essential for recruiting and retaining a talented workforce. An internal benchmark carried out in October 2009 shows that the wages our Copper Division pays are higher than both average wages in Kazakhstan and the salaries paid by other large mining companies in the country.

COMMITTED TO RESPONSIBILITY

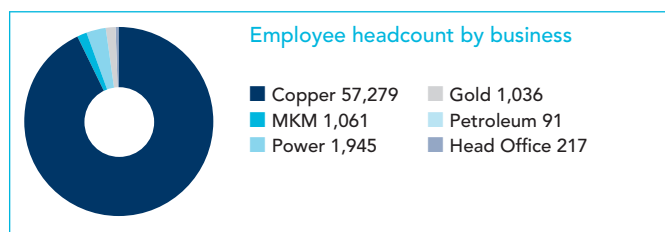
NURTURING TALENT

In 2005, we selected two talented young engineers to study for a Masters degree at Beijing Science and Technology University.

After interviewing 10 applicants, we chose two engineers, Sabira Makhambetova and Natalya Mutayeva, who worked at the Zhezkazgan and Satpayev facilities respectively. These applicants displayed a high level of professional qualification, good knowledge of economics and production management, and excellent communication skills. Both chose to study for a Masters degree in enterprise management, from a list of relevant courses offered by the Company.

In 2009, both engineers completed their studies and returned to higher-level, better paid positions at Kazakhmys. Sabira now works as an economist in our capital construction investments department, and Natalya has become an equipment engineer in the procurement team.

Says Sabira, "I am able to exploit all the skills I have acquired – understanding of economics and knowledge of Chinese – as our department closely works with Chinese partners. I am grateful to Kazakhmys for providing me with such an opportunity to acquire a new speciality and to experience living in an exciting and completely culturally different environment."



Kazakhmys contributes to defined contribution pension schemes in Kazakhstan, Germany and the UK. These contributions are a legal requirement in Kazakhstan. The Company has share plans for senior executives, which are described on page 75.

Our Copper Division in Kazakhstan provides medical and dental services at no cost to current employees, and at less than half price for their families and retired employees. In 2009, medical facilities across the Copper Division treated 15,657 people, of whom 6,380 were employees, 937 were retired employees and 2,213 employee family members.

The Copper Division also provides leisure facilities to employees and their families. It owns two health resorts, a holiday facility and six children's summer camps. In 2009, 4,395 employees and 637 retired employees visited health and holiday facilities paid for by Kazakhmys. Over 4,000 of our employees' children spent their holidays at our summer camps.

Training and development

Training is essential for employees to do the best job they can. We invest in training and education for employees of all levels. We provide formal education at colleges and universities, as well as courses in mining specialities at our own training facilities. Our purpose-built technical college in Satpayev offers classroom training as well as operational and safety training both above and below ground.

At the end of 2009, we completed construction of a second technical college at Balkhash, where we will open a similar training centre for employees in 2010. We require all employees to pass periodic operational, health and safety refresher courses and tests, and help many employees to retrain in a new speciality to help them develop their careers with us.

In 2009, 25,808 employees received professional training at our technical college, universities and mining schools in Kazakhstan and abroad. There are currently 388 continuing their training at our technical college, 33 at Kazakhstani universities and 31 abroad. In 2009, the Copper and Power Divisions spent over \$900,000 on external training, although this does not include the cost of running our own training centres.

Equality and diversity

We want to provide a fair and diverse workplace free from discrimination. This benefits employees, and ensures we profit from a workforce that reflects the local population and the variety of skills and experience within it. We are committed to recruiting, developing, training and rewarding employees based on merit. We employ disabled people with relevant skills, provided they can work safely.

Recruiting women is a challenge throughout the mining industry. In our Copper Division, around 35% of all employees, including many of our engineers, and 22% of managers are women.

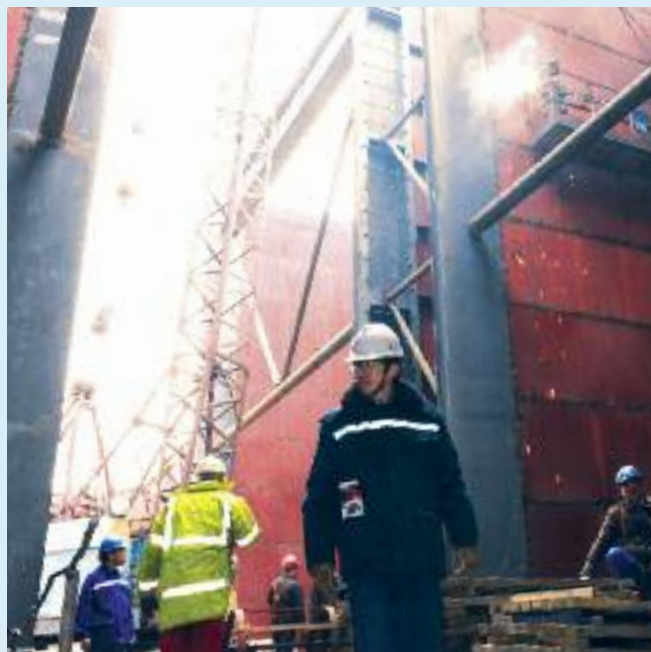
Within Kazakhstan the Group employs a small number of non-Kazakh nationals, generally where there is a skill shortage or where those individuals bring particular experience or abilities which is unavailable. A key aim is to ensure a transfer of skills and knowledge to existing employees, in order to benefit the local workforce and reduce dependence on 'expat' labour.

COMMITTED TO RESPONSIBILITY

IMPROVING AIR QUALITY

We are installing electrostatic precipitators, developed by pollution control specialists Lodge Cottrell, at the Ekibastuz GRES-1 power station. Once installation is complete, these will capture 99.85% of ash in the air and reduce particulate emissions by an estimated factor of four – substantially improving local air quality. We plan to fit the precipitators to all eight power units at Ekibastuz GRES-1 by 2013, and are in the process of testing the first unit, installed in 2009.

In 2009, we also introduced new coal burning technology at Ekibastuz GRES-1, developed by PolytechEnergo (Russia). Combined with the new precipitators, this technology will further reduce emissions. The new technology provides an alternative to conventional dust-firing and will allow the furnace to burn optimum-quality design coal as well as lower-grade coal. This will increase fuel efficiency, reducing emissions of nitrogen oxides by over 30%. Another advantage is that the new technology enables coal particles to coarsen, and ash from burning coarsened coal has a greater surface area and is more easily collected by the precipitators. This increases the flue-gas purification rate. Whilst it is a first in Kazakhstan, the technology is tried and tested, as PolytechEnergo has installed it in over 50 projects in five countries.



Consultation and communication

Keeping employees informed about our business strategy and matters that affect their work is critical to maintaining a loyal and motivated workforce. We communicate with employees in a variety of ways, primarily through face-to-face conversations between managers and their teams, email, and also through a company-wide internal newspaper and intranet site, both established in the past year.

Most employees are represented by trade unions, which negotiate collective employment agreements with our divisions. In Germany, employees are represented by a works council and approximately 55% of employees are members of the IG Metall union.

In 2009, the trade union representing employees in Kazakhstan engaged with management on issues including living and working conditions, food provision, and health and safety. We also negotiated on measures implemented in response to the global recession and resulting collapse in copper prices. These include the suspension of several social benefits such as preferential prices at health centres, and a shortened working week for certain employees. The union held almost 100 meetings during the year.

Our Youth Union boasts almost 18,000 members and supports younger employees joining the Company. All copper staff under the age of 35 are free to join. The Youth Union runs work-related competitions plus cultural and sporting events, as well as organising charitable and volunteering projects.

2010 commitment

- Open our second employee training centre at the new Balkhash technical college.

ENVIRONMENT

Mining has substantial impacts on the natural environment, and we aim to manage and minimise these both during operations and after site closure. This means using energy, water and other resources efficiently; reducing greenhouse gas emissions, waste, and emissions to air, land and water; and responsibly managing and restoring our land to prevent loss of biodiversity.

As part of the integrated HSE management systems our divisions are implementing, we are putting in place measures to systematically identify and control our environmental impacts, and ensure we consider them when making operational decisions. A programme

of environmental auditing is providing a performance baseline to improve on and help us monitor progress.

Independent specialists KazEcoProject carried out environmental audits at 48 copper facilities between November 2008 and May 2009. Whilst they made some recommendations for improvement, the auditors concluded that our Copper Division complies with Kazakhstan's environmental regulations, such as permitted emissions and effluent levels. In addition, our environmental protection teams performed 340 internal inspections in 2009. These resulted in a plan to install more water meters at our copper operations to improve usage measurement.

We make mandatory payments for the industrial effluent we create, such as waste water discharge, tailings, ash and slag, and report emissions to the relevant authorities quarterly. These payments amounted to \$36 million in 2009 for the Copper Division. Environmental regulators carried out 96 inspections at our copper operations during the year to assess compliance with regulatory requirements.

We have commissioned London-based Golder Associates to perform a comprehensive audit in 2010, which will evaluate the Copper Division's social and environmental performance in detail, and assess our compliance with the requirements of the World Bank and European Bank for Reconstruction and Development. We will use the resulting recommendations to develop a medium-term environmental action plan.

Energy use and greenhouse gas emissions

At Kazakhmys we produce significant greenhouse gas emissions through electricity use and heat production at our mines and production facilities, coal combustion in our four power stations and fuel use in our vehicles. Increasing legislation relating to greenhouse gas (GHG) emissions from the use of fossil fuels may pose long-term risks to our coal mining, power generation and petroleum exploration businesses.

We are committed to reducing GHG emissions from our operations through energy efficiency and the use of technology. In 2009, total energy use in our Copper and Power Divisions was 15.9 petajoules.

Total GHG emissions were 21.6 million tonnes of carbon dioxide equivalent (CO₂e) for the two businesses combined – 10.7 million tonnes for copper and 10.9 million tonnes for power. This increase

in CO₂e from the copper business is because, in 2009, the Kazakhstan Ministry of Environment changed the method it provides for calculating methane and nitrous oxide emissions. Our purchase of the Ekibastuz GRES-1 power plant has clearly caused a large increase in companywide emissions.

Emissions to air

Our copper smelters produce substantial amounts of sulphur dioxide (SO₂) which, if released, reduces air quality and aggravates asthma and other breathing difficulties. Other emissions associated with our operations include nitrogen oxides (NO_x), arsenic, ash and dust. We monitor and work hard to reduce all emissions our operations release to air.

In 2009, our copper smelters released 189,099 tonnes of SO₂ compared with 492,970 tonnes in 2008. This significant reduction is due to our sulphuric acid production plant at Balkhash, which is transforming SO₂ emissions from the complex's copper operations into a valuable by-product, greatly reducing the amount of the gas released to air. By the end of 2009, production levels had risen to almost 800,000 tonnes of sulphuric acid after 18 months of operation – and used 75% of the SO₂ emissions produced. The remaining SO₂ emissions for the plant totalled 105,514 tonnes during the year, well below the permitted limit of 126,904 tonnes.

Water use and emissions

Water supplies are coming under increasing pressure in many parts of the world as populations grow and industrialise. Mining uses large volumes of water, posing the risk of competition with local communities in regions where water is scarce.

In Kazakhstan, water availability varies significantly by season and geography. In some areas where we operate, water is scarce, especially during dry seasons. This makes efficient water use critical to the long-term viability of a number of operations. In addition, all sites need to carefully control the effluent they discharge into local waterways, to avoid pollution and maintain local water quality.

Total water use decreased by around 46% to 129,183 megalitres in 2009 (2008: 240,624 megalitres). There are three reasons for this large reduction. Firstly, the 2008 figure includes some water used by local communities, as well as our operations. This will be excluded in all future water data. Secondly, we suspended zinc operations at Balkhash. Finally, in Zhezkazgan, which suffers droughts in the dry season, our copper operations have introduced a water recycling system to reduce usage, as well as discharges into the Kara Kengir river. Over five million cubic metres of treated operational and municipal wastewater are now provided to underground mining operations at the South and Stepnoy mines.

Increasing economic pressures and inefficient water use are endangering ecosystems in the Ili-Balkhash basin. In October 2009, we signed a water use agreement as part of an integrated water management plan for the area being developed by the Regional Environmental Centre for Central Asia. This commits us to a series of measures to reduce water use and effluent over time. Examples include improving the pipeline feeding the local settlement, and the installation of a water recycling system that will reduce annual water withdrawal from Lake Balkhash by 87 million cubic metres.

Land management

We recognise the need to minimise land disturbance and protect biodiversity throughout the life of our operations. Local legislation requires us to rehabilitate sites that have closed down. The Copper Division sets aside provisions for this purpose as a condition of its contracts and licences for subsoil use, and this amounted to \$37 million as of 31 December 2009 (2008: \$48 million). The reduction is due to the 25% devaluation of the tenge early in 2009.

Our operations carried out various land management activities in 2009, such as using overburden, ash and slag to backfill mines and restore landscapes, and planting greenery on and around our sites. For example, in 2009 the Copper Division hired a local contractor to

Copper Division SO₂ emissions (tonnes)

189,099



Copper Division CO₂ equivalent emissions (million tonnes)

10.7



1 Method for calculating emissions changed in 2009.

2 This figure has been restated from 9.2 MT in the 2008 Annual Report, as it now includes emissions from the East Region, which we previously reported separately.

restore a 3,500m² former stone quarry at its Belousovsky mine, previously used to store ash and slag. The first phase of the restoration comprised levelling the area and laying subsoil and topsoil. The second phase of reinstatement will focus on promoting biodiversity, although the area is fertile and we expect many plants to grow back naturally.

Waste

Mining, metallurgical operations and power generation create large amounts of waste, which can cause environmental pollution if not properly disposed of and is visually unappealing.

Our mining operations produce waste rock and overburden, which we store in dumps and often use to backfill mines and when rehabilitating sites after closure. Copper smelting produces tailings and slag, which is classed as hazardous waste and must be securely contained in dams to prevent leaching into the soil and water sources. Our power plants create solid wastes such as fly ash and slag. Other wastes created include sludge from our wastewater treatment facilities, slime from our sulphuric acid plant and general waste.

In 2009, our Copper and Power Divisions generated 70 MT of waste, down from 120 MT in 2008. We continue to seek additional ways to beneficially reuse our wastes, for example in brick production. The Copper Division has also opened a tyre-recycling plant in January 2010, see the case study on page 56.

Environmental awareness

Increasing awareness of the causes and effects of environmental damage is essential for changing behaviour and improving performance. In 2009, we took part in a variety of events to this end.

These include:

- The Kazakhstan Environmental Protection Ministry's exhibition of natural resource companies;
- Public hearings in Ust-Kamenogorsk, Eastern Region, also attended by Kazakhstan's Environmental Protection minister;
- Meetings with the Environmental Protection Ministry at Nura-Sarysu;
- A workshop on climate change and ratification of the Kyoto Protocol held by the Climate Change Coordination Centre, a Kazakhstan-based non-governmental organisation;
- A workshop on environmental problems in the Karaganda region;
- We also wrote and published various environment-related articles and editorials in the local and national media.

2010 commitment

- Develop a medium-term environmental action plan based on the results of the audit carried out by Golder Associates.

COMMUNITIES

Our presence brings many benefits for communities, such as employment, opportunities for local suppliers and investment in local infrastructure. At the same time, our operations can cause problems such as increased noise, dust and traffic, so it is essential that we work closely with local people to minimise disruption and ensure they benefit from our business.

In many places, the local community only exists because of our operations. Our social investment is therefore not simply philanthropy – our business depends on the development of communities where our employees and their families can thrive. We have a long history of close involvement with local communities and, while this relationship will evolve, we will probably retain a stronger social commitment than many other major resource companies.

In Kazakhstan, engagement about operational activities that may affect a community generally takes place through the local authority. However, we increasingly consult directly with local communities. For example, in 2009 we met local families at Bozshakol and agreed to provide access to a graveyard found within the project boundary. Should the project expand, we will relocate the graves to a safe location in close consultation with both the community and authorities.

Economic impacts

Kazakhmys is one of the largest employers and taxpayers in Kazakhstan, and our Kazakh revenue represents 2.5% of the country's gross domestic product. The vast majority of our 61,629 people are Kazakhstan citizens, whose income taxes and spending also contribute to the national economy.

We are committed to helping further develop the Kazakh economy and in 2009, along with the Government, founded Made in KZ, a programme to support small and medium-sized companies in the country. We are dedicated to purchasing products, equipment and services from these companies wherever they are available at the right quality and price.

In September 2009, we held a conference for local companies in Karaganda, and invited them to tender for contracts to supply Kazakhmys. We also announced plans to finance projects aiming to increase local companies' capacity to supply us. Following the conference, 122 companies expressed an interest. We are already working with 67 of these and have signed contracts totalling \$134 million for products ranging from construction materials to tools and uniforms. In October, we took part in a similar, Government-run conference in Pavlodar, and renewed contracts with nine suppliers in the region as a result.

Our Copper Division has established a dedicated working group for local enterprise development. In December 2009, we also established a local procurement working group comprising procurement specialists from all areas of the Copper Division. The working group visited suppliers in Karaganda, Pavlodar and East Kazakhstan to assess their products and production processes and raise awareness of our commitment to local purchasing. The Copper and Power Divisions spent \$867 million on goods and services from Kazakhstan suppliers in 2009 – around 44% of total spending on goods and services.

The Copper Division has centralised purchasing to ensure greater quality control. In 2010, we will introduce standard, higher-quality personal protective equipment across all copper facilities. This will be produced for us by a local contractor, using materials we purchase overseas.

COMMITTED TO RESPONSIBILITY**FOSTERING ENTERPRISE DEVELOPMENT**

Our Copper Division has invested over \$7 million in Kazakhstan's first tyre-recycling facility, bringing operational, economic, employment and environmental benefits.

Tyres for mining vehicles such as dump trucks and loaders are costly and in short supply in Kazakhstan. To overcome these problems, our Zhezkazgan operations will send their used tyres to the new MysShina plant for the worn-out tread to be renewed, and we will buy back the re-treaded tyres for 40% less than the cost of a new tyre. Because the plant is close to our mines, this approach will also reduce transport costs. As the lack of recycling facilities meant used tyres were previously sent to landfill, re-treading the tyres also reduces our environmental impact.

The plant has created 100 new jobs for local people, many of whom were unemployed. Each year it will re-tread about 2,000 tyres, using technology developed by German company Schelkmann, which supplied the equipment and trained our employees. The new recruits received around six weeks of classroom training before passing an exam. Initial trials confirm that our investment will provide a significant return.



COMMITTED TO RESPONSIBILITY

RESPECTING CULTURAL HERITAGE

There are several important archeological sites located within the boundary of our Bozshakol copper project in northern Kazakhstan, which we are taking great care to protect. In 2009, we selected expert archaeologists to carry out detailed surveys, document the artefacts found, establish whether they could be safely removed, and carry out the excavations. The Margulan Archaeology and Ethnography Institute in Almaty supervised all work.

Detailed surveys confirmed the presence of 25 separate archeological sites, 15 of which were previously undiscovered. These span a timeframe from 350,000 years ago through to the late medieval period, providing a comprehensive picture of cultural development in north-eastern Kazakhstan. There are six Stone Age sites, a Bronze Age settlement, five Iron Age burial mounds, medieval burial sites, primitive mines and ceremonial monuments.

The sites, along with artefacts found there such as knives, tools, copper ore and bronze bullion, prove that ancient peoples in the area were highly developed in their use of metals and other materials. These artefacts have been carefully excavated, and we plan to open a museum at the site to house them.



Community and infrastructure development

Our Copper Division invests heavily in the construction and maintenance of social facilities such as schools and hospitals, and the development of roads and infrastructure near our operations. We concentrate our efforts on projects closely related to our operations, ensuring our investment benefits the business as well as communities and strengthens our ties with local people.

In 2009, the copper business invested just under \$88 million in education, healthcare, sports and culture, infrastructure and the environment, and sponsorship and charitable donations. This includes capital expenditure and ongoing support for facilities, and is by far the largest programme of its kind in Kazakhstan.

Education is one of our priorities. We are the largest corporate contributor to education in Kazakhstan, and allocate \$20 million annually for this purpose. The Group runs 37 nursery schools and provides financial support to schools and orphanages located near its operations. These include a boarding school in Astana for orphans and children from low-income families – the first of its kind in Kazakhstan. Opened in September 2009, the school cost \$30 million to build and can take up to 700 students each year. There were 215 students at the end of 2009. The school is equipped with workshops, interactive classrooms and a media library, as well as a driving school, swimming pool and sports complex. Students will gain qualifications in construction, transport, metalwork and catering, as well as benefiting from accommodation, medical services and broader skills development.

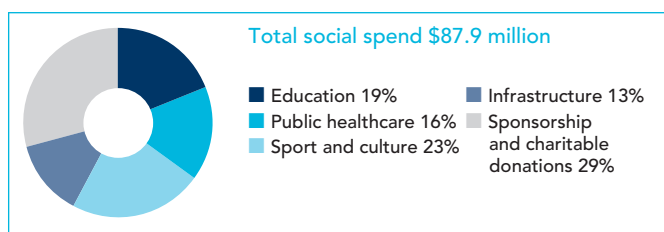
Our technical college in Balkhash is designed to train 1,300 students a year in specialist skills for the mining sector. Opened in September 2009, the college has 245 full-time and 307 part-time students training in various technical and mining-related subjects. A training centre for employees will open at the college in 2010. Tutors from the college currently train employees on-site. A similar college in Satpayev has already seen 200 graduates complete their training since opening in September 2008.

Every year, Kazakhmys sponsors over 200 university and college students to complete their education in Kazakhstan or abroad. Our operations also provide internships for local college students. For example, the Ekibastuz GRES-1 power station provides placements for students from Ekibastuz Polytechnic, and three college students began internships in November 2009.

We also invest in projects that encourage young people to participate in sports. March 2009 saw the completion of the Kazakhmys-sponsored reconstruction of the Ulytau Sports Palace in Zhezkazgan. This facility includes a number of sports halls and a health centre, where 800 people each day can take part in sports including volleyball, basketball, rugby, tennis, wrestling and boxing.

2010 commitment

- Continue work on a variety of community and infrastructure development projects, including a kindergarten, park, museum, sports stadium in Zhezkazgan, water infrastructure at Uaitas-Aidos and a national library and learning facility in Astana.







Directors' Report: Governance

GOVERNANCE

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DRILLING AT ZHEZKAZGAN MINE

This machine can drill around 25 holes per hour and the entire face will be drilled in 2.5 hours.

Directors' Report: Governance

DIRECTORS' REPORT: BOARD OF DIRECTORS


VLADIMIR KIM (49)
Chairman
Appointment:

Joined the Group in 1995 and became Chairman in 2005.

Committee membership:

Chairman of the Nomination Committee.

Skills and experience:

He was appointed managing director and chief executive officer of Zhezkazgantsvetmet JSC in 1995 and was elected chairman of the board of directors of that company in December 2000.


OLEG NOVACHUK (39)
Chief Executive
Appointment:

Joined the Group in 2001 and was appointed Chief Executive in 2007, having been Finance Director since 2005.

Skills and experience:

He was formerly vice president of financial projects for Kazakhmys Corporation LLC and the financial adviser to the president of Kazakhmys Corporation LLC, and chairman of the board of directors of Kazprombank JSC.


DAVID MUNRO (54)
Development Director
Appointment:

Joined the Group in 2005 as a non-executive Director and now Development Director, having previously been Strategy Director.

Committee membership:

Member of the Group Health, Safety and Environment Committee.

Skills and experience:

He is a non-executive director of Lonmin plc and was formerly chief executive of RMC Group plc, chief development officer of BHP Billiton plc and an executive director of Billiton plc responsible for its global aluminium and base metals businesses.


SIMON HEALE (56)
Non-executive Director
Appointment:

2007

Committee membership:

Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Skills and experience:

Interim chairman of Panmure Gordon & Co plc and a non-executive director of The Morgan Crucible Company plc, Marex Group Limited and PZ Cussons plc. He was formerly chief executive of The London Metal Exchange, chief operating officer of Jardine Fleming Ltd and deputy managing director of Cathay Pacific Airways.


DAULET YERGOZHIN (30)
Non-executive Director
Appointment:

2008

Skills and experience:

Head of the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan since October 2008, having held a number of other governmental positions since early 2006. He was formerly a non-executive director of ENRC PLC. Prior to his governmental appointments, he was deputy director of the North-Caspian project department of JSC NC KazMunaiGas before moving to a deputy director general role in JSC 'Offshore Oil Company KazMunayTeniz', a subsidiary of JSC KazMunaiGas. He also previously worked for KazTransOil JSC.


PETER HICKSON (64)
Non-executive Director
Appointment:

March 2009

Committee membership:

Member of the Audit and Group Health, Safety and Environment Committees.

Skills and experience:

Chairman of Communis plc and senior independent director of London & Continental Railways Limited. He was previously chairman of Anglian Water Group Limited, group finance director of Powergen plc and a non-executive director of Telent plc, Scottish Power plc and RAC plc. He is also a trustee of the ORBIS Charitable Trust.

**VLADIMIR NI (77)****Non-executive Director****Appointment:**

2005

Skills and experience:

Chairman of the board of directors of Kazakhmys Corporation LLC since 2006, having previously been vice chairman. He is also a director of HOZU Corporation LLC.

**LORD RENWICK OF CLIFTON, KCMG (72)****Non-executive Director****Appointment:**

2005

Committee membership:

Chairman of the Remuneration Committee and a member of the Nomination Committee.

Skills and experience:

Chairman of Fluor Limited, deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont AG. He was formerly British Ambassador to the United States and to South Africa, and a non-executive director of GEM Diamonds Limited, SABMiller plc, BHP Billiton plc, British Airways plc and Liberty International plc. He is vice chairman, Investment Banking of J.P. Morgan Europe and vice chairman of J.P. Morgan Cazenove.

**PHILIP AIKEN (61)****Non-executive Director and Senior Independent Director****Appointment:**

2006

Committee membership:

Chairman of the Group Health, Safety and Environment Committee and a member of the Nomination and Remuneration Committees.

Skills and experience:

Chairman of Robert Walters plc, and a non-executive director of National Grid PLC and Miclyn Express Offshore Limited. He was formerly president, UK of BHP Billiton plc, having previously been group president of BHP Billiton's energy business, president, BHP Billiton Petroleum, an executive director of BTR plc and held a number of senior positions in BOC Group plc.

OTHER SENIOR MANAGEMENT:**CLINTON DINES (52)****Non-executive Director****Appointment:**

October 2009

Committee membership:

Member of the Audit Committee.

Skills and experience:

Has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988 he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, he became president, BHP Billiton China, a position from which he retired in 2009 prior to his appointment with Kazakhmys.

**MATTHEW HIRD (37)****Chief Financial Officer****Appointment:**

2007

Skills and experience:

Joined the Group in 2005 as Group Financial Controller and Company Secretary. He was formerly a senior manager with Deloitte & Touche's global mining team, and group reporting manager and company secretary of Vedanta Resources plc.

**EDUARD OGAY (40)****Chief Executive Officer, Kazakhmys Corporation LLC****Appointment:**

2006

Skills and experience:

Joined the Group in 2001 as director of marketing and international relations. Appointed director of corporate development in 2005 prior to becoming chief executive officer of Kazakhmys Corporation LLC in 2006.

Directors' Report: Governance

GOVERNANCE FRAMEWORK

PHILIP AIKEN
Senior Independent Director



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

This section of the Annual Report and Accounts has been prepared in accordance with the Combined Code on Corporate Governance issued by the Financial Reporting Council (FRC) in June 2008 (the 'Combined Code').

The Company's policies on corporate direction and control ensure that the Company applies all of the principles of good governance contained in the Combined Code to the organisational structure it has adopted to conduct its business, its remuneration policy, its relations with its shareholders, and the procedures adhered to in its financial reporting, internal control and assurance processes.

The rest of this section of the Annual Report and Accounts explains in more detail how the Company applied the principles and complied with the provisions of the Combined Code, and also gives further details of the matters the Board and its committees considered during the financial year.

The Company is aware that, following its review of the impact and effectiveness of the Combined Code last year, the FRC has undertaken a consultation on the proposed revisions to the Combined Code. The proposed revisions include proposals to implement some of the recommendations of the Walker Report on the governance of banks and other financial institutions, which the FRC consider should apply to all listed companies. The outcome of the consultation and the revised Combined Code, which will be known as the UK Corporate Governance Code, will apply to the Company's Annual Report and Accounts for the year ended 31 December 2011. The Company will monitor the proposed revisions and report to shareholders on its compliance with the revised Combined Code at the appropriate time.

COMBINED CODE COMPLIANCE

During the year, the Company has complied fully with the provisions of the Combined Code, save in the following respects:

- **the Chairman was not independent at the time of his appointment.** This arises due to Vladimir Kim's significant shareholding in the Company. Vladimir Kim joined the Group in 1995 and has made a major contribution to its development into an international company. The Board is unanimously of the opinion that his continued involvement in an executive capacity is vitally important to the success of the Group.
- **at least half the Board was not independent, for the purposes of the Combined Code, throughout the period.** To redress the balance of independent Directors on the Board, the Board appointed Peter Hickson and Clinton Dines with effect from 5 March 2009 and 1 October 2009, respectively, as independent non-executive Directors. With effect from 1 October 2009, the Company complied fully with this requirement of the Combined Code.
- **the Audit Committee did not have at least three members throughout the period.** Following the appointment of Peter Hickson as an independent non-executive Director and a member of the Audit Committee with effect from 5 March 2009, the composition of the Committee complied fully with this requirement of the Combined Code.

THE BOARD

The Board is responsible for managing the Company on behalf of its shareholders and each Director must act in a way that he considers promotes the long-term success of the Company for the benefit of those shareholders as a whole. The Board also ensures that an appropriate balance between promoting long-term growth and delivering short-term objectives is achieved.

The Board sets the overall strategy of the Group, reviews trading performance, ensures adequate funding, examines major investments, ensures the appropriate allocation of financial resources and monitors the performance of the executive team. It is also responsible for providing leadership and support to the executive management team in creating and sustaining shareholder value through the management of the Group's business, together with delivering expected shareholder returns. Another key responsibility of the Board is to approve the overall Group risk appetite and ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulation.

The Board has a formal schedule of matters specifically reserved for its decision. A summary of the matters reserved for the Board is set out opposite. These are matters that are significant to the Group as a whole because of their strategic, financial or reputational implications or consequences. The Board has four principal committees to deal with specific aspects of the Group's affairs. The chairmen of the Board committees report regularly to the Board on the matters discussed at the Board committees, thereby ensuring that all Directors have visibility and the opportunity to discuss such matters.

Directors are required to demonstrate unquestioned honesty and integrity, a willingness to question, challenge and critique, and a desire to understand and commit to the highest standards of governance. Each Director must ensure that no decision or action is taken that places his interests in front of the interests of the business. Directors commit to the collective decision-making processes of the Board. Individual Directors are required to debate issues openly and constructively and be free to question or challenge the opinions of others.

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters, for ensuring good information flows within the Board and for providing guidance to the Board in the responsible and effective execution of its tasks. All Directors have access to the advice and services of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. No such external advice was sought by any Director during the year. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

The Company Secretary is Robert Welch, who joined the Group in 2006 as Deputy Company Secretary and was appointed to his current position in March 2007. He is an Associate of the Institute of Chartered Secretaries and Administrators and is secretary to all of the Board Committees except the Audit Committee. The secretary to the Audit Committee is Stephen Hodges, Deputy Company Secretary, who joined the Group in 2007 and is also an Associate of the Institute of Chartered Secretaries and Administrators.

CHAIRMAN AND CHIEF EXECUTIVE

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

The Chairman is responsible for the strategic direction of the Group, overseeing the responsibilities of management, leadership of the Board and the relationships with the Government and business community in Kazakhstan. As part of the evaluation of the performance of the Chairman, the Board remains satisfied that the Chairman is able to fulfil all of the commitments required of his role.

MATTERS RESERVED FOR THE BOARD

Key matters reserved for the Board include the approval of:

- the Group's strategy, and medium and short-term plans;
- major acquisitions, mergers or disposals;
- the annual budget;
- the Group's risk management strategy and policy on insurance;
- health, safety, environmental and ethical policies;
- major capital investments and projects;
- the Company's dividend policy;
- the appointment and removal of any Directors of the Company;
- the authorisation of Directors' conflicts or potential conflicts of interest;
- the Board and its committees performance evaluation process;
- the Annual Report and Accounts and half-yearly reports;
- all circulars, reports, prospectuses or other related documents for shareholders;
- the principal regulatory filings with stock exchanges;
- the rules and procedures for dealing in the Company's shares; and
- the appointment or removal of the Company's external auditor and main financial, legal and technical advisers.

Directors' Report: Governance

GOVERNANCE FRAMEWORK CONTINUED

ROLES AND RESPONSIBILITIES

ROLE OF THE CHAIRMAN

Key roles and responsibilities of the Chairman include:

- setting a vision for the Group and formulation of its strategy;
- providing leadership to the Board, ensuring the effectiveness of the Board on all aspects of its role and setting its agenda;
- ensuring effective communication with shareholders;
- facilitating the effective contribution of non-executive Directors and ensuring constructive relations between executive and non-executive Directors;
- providing leadership to the senior management team;
- ensuring the creation and maintenance of safe working environments within the Group's operations; and
- maintaining effective and constructive relations with the Government and business community in Kazakhstan.

ROLE OF THE CHIEF EXECUTIVE

The Chief Executive is responsible for the day-to-day management of the Group and the implementation of the strategy approved by the Board.

Key roles and responsibilities of the Chief Executive include:

- establishing and maintaining an international organisation that will enable the Group's strategic direction to be implemented effectively;
- developing a human resources plan to ensure the Group has the capabilities and resources required to achieve its strategic objectives;
- representing the Group as required and furthering its best interests in the business and industry community;
- ensuring that the business is operating effectively;

- ensuring that the Group's operations comply with all relevant health and safety standards and are undertaken with special regard for environmental concerns in the countries in which the Group operates; and
- ensuring at all times that the Group conducts its business in accordance with the legal requirements of the countries in which it operates.

ROLE OF THE SENIOR INDEPENDENT DIRECTOR

Philip Aiken continued in his role as Senior Independent Director during 2009. The key roles and responsibilities of the Senior Independent Director are to:

- together with the other non-executive Directors, be available to discuss matters of concern with shareholders. Furthermore, Philip Aiken is available to shareholders should they have had any concerns which could not be resolved through the normal channels of communication with the Chairman or Chief Executive. No such concerns were raised by shareholders during the year ended 31 December 2009;
- meet with the non-executive Directors without the Chairman being present at least annually and lead the Board in the ongoing monitoring and annual performance evaluation of the Chairman; and
- maintain contact as required with major shareholders to understand their issues and concerns, including attending meetings where necessary with shareholders, to listen to their views in order to develop a balanced understanding of the issues and concerns of major shareholders.

During the year, Philip Aiken attended a number of meetings with institutional shareholders to discuss their views on the Group and received feedback on the Chairman's performance following the annual Board performance evaluation process.

NON-EXECUTIVE DIRECTORS

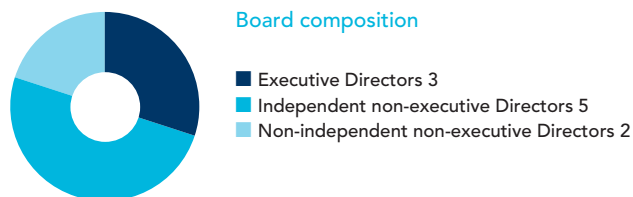
The non-executive Directors provide a strong independent element on the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the proper stewardship of the Company's affairs, the non-executive Directors fulfil a vital role in corporate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

BOARD INDEPENDENCE

Effective management and good stewardship are led by the Board, which currently consists of ten directors, eight of whom served throughout the financial year, with Peter Hickson and Clinton Dines having been appointed on 5 March 2009 and 1 October 2009, respectively. Including the Chairman, there are three executive Directors, five independent non-executive Directors and two non-independent non-executive Directors; this balance ensures that no individual or small group of Directors can dominate the decision making process and that the interests of the minority shareholders are protected. Biographies of all Directors are set out on pages 60 and 61.

It is Kazakhmys' policy that at least half the Board should be independent non-executive Directors. Other than Vladimir Ni and Daulet Yergozhin, the Board considers each of its current non-executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the organisation and there are no relationships or circumstances likely to affect, or could appear to affect, the judgement of Philip Aiken, Clinton Dines, Simon Heale, Peter Hickson and Lord Renwick. The Board carries out a review of the independence of its Directors on an annual basis. Vladimir Ni is not considered by the Board to be independent, with effect from 1 January 2006, following his appointment as chairman of Kazakhmys Corporation LLC, the

Board composition



Company's operating company within the Kazakhmys Copper Division in Kazakhstan, and Daulet Yergozhin is not considered by the Board to be independent from his date of appointment as he is a representative of the Government of Kazakhstan, a 15% shareholder in the Company.

The independent non-executive Directors are:

Philip Aiken

Chairman of Robert Walters plc, and a non-executive director of National Grid PLC and Miclyn Express Offshore Limited. He was formerly president, UK of BHP Billiton plc, having previously been group president of BHP Billiton's energy business, president, BHP Billiton Petroleum, an executive director of BTR plc and held a number of senior positions in BOC Group plc.

Clinton Dines

Has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988 he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, he became president, BHP Billiton China, a position from which he retired in 2009 prior to his appointment with Kazakhmys.

Simon Heale

Interim chairman of Panmure Gordon & Co plc and a non-executive director of The Morgan Crucible Company plc, Marex Group Limited and PZ Cussons plc. He was formerly chief executive of The London Metal Exchange, chief operating officer of Jardine Fleming Limited and deputy managing director of Cathay Pacific Airways.

Peter Hickson

Chairman of Communis plc and senior independent director of London & Continental Railways Limited. He was previously chairman of Anglian Water Group Limited, group finance director of Powergen plc and a non-executive director of Telent plc, Scottish Power plc and RAC plc. He is also a trustee of the ORBIS Charitable Trust.

Lord Renwick of Clifton, KCMG

Chairman of Fluor Limited, deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont AG. He was formerly British Ambassador to the United States and to South Africa, and a non-executive director of GEM Diamonds Limited, SABMiller plc, BHP Billiton plc, British Airways plc and Liberty International plc. He is vice chairman, Investment Banking of J.P. Morgan Europe and vice chairman of J.P. Morgan Cazenove, who are brokers and financial advisers to the Company; he has no involvement in the provision of broking or financial services to the Company.

ATTENDANCE AT BOARD MEETINGS

All Directors are expected to attend each Board meeting and each meeting of the committees of which they are members, unless there are exceptional circumstances which prevent them from doing so. Scheduled Board and committee meetings are arranged at least a year in advance to allow Directors to manage their other commitments.

All Directors are provided with the papers for consideration and other relevant information in advance of each meeting. If a Director is unable to attend a meeting because of exceptional circumstances, he will still receive the papers and other relevant information in advance of the meeting and will have the opportunity to discuss with the chairman of the meeting or the Company Secretary any matters he wishes to raise to ensure his views are given due consideration and, if necessary, follow up with the decisions taken at the meeting. The Chairman, Chief Executive and Company Secretary are always available for the Directors to discuss any issues relating to a Board or committee meeting or other matters. Reasons for non-attendance are generally prior business and personal commitments or illness.

The attendance of Directors at scheduled meetings of the Board which they were eligible to attend and the number of meetings attended during 2009 is shown below:

Directors during the year	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
Vladimir Kim	6	5
Oleg Novachuk	6	6
David Munro	6	5
Philip Aiken	6	6
Clinton Dines	1	1
Simon Heale	6	6
Peter Hickson	4	4
Vladimir Ni	6	6
Lord Renwick	6	5
Daulet Yergozhin	6	3

In addition to the six scheduled meetings of the Board during the year, three further meetings were arranged at short notice to deal with specific matters and it was not always possible for all Directors to attend such meetings.

GOVERNANCE IN PRACTICE

INDUCTION OF CLINTON DINES AS A NEW INDEPENDENT NON-EXECUTIVE DIRECTOR

Following an initial discussion between the Company Secretary and Clinton Dines, a comprehensive induction programme, tailored to his individual experiences and requirements, was arranged on his joining the Board. The programme was designed to ensure that he was provided with the necessary knowledge and understanding of his role and of the Group and its activities to enable him to fulfil his duties on the Board and on the Audit Committee.

The programme included:

- meetings with the Company's brokers, legal advisers and external auditor;
- meetings with the Chief Financial Officer, Head of Corporate Communications, Head of Sales and Logistics and Head of Business Development on their roles and responsibilities;
- meeting with the Company Secretary to discuss duties, responsibilities and liabilities of Directors, Board and committee issues and corporate governance;
- a visit to the Zhezkazgan Complex in Kazakhstan, providing an opportunity to see the Group's operations and to meet with the Chief Executive Officer of Kazakhmys Corporation LLC and other senior local management.

Although not part of his formal induction programme, he also has a standing invitation to attend shareholder meetings and analyst presentations, with shareholders having an opportunity to meet him after the Annual General Meeting.

Directors' Report: Governance

GOVERNANCE FRAMEWORK CONTINUED

RE-ELECTION OF DIRECTORS

New Directors appointed by the Board must submit themselves for election by shareholders at the Annual General Meeting following their appointment. Thereafter, the Company's Articles of Association require that all Directors stand for re-election at least every three years.

INDUCTION, TRAINING AND INFORMATION

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

To assist Directors in the performance of their duties, there are procedures to provide them with appropriate and timely information, including information between meetings about developments in the Group's business and financial performance, so that they can discharge their duties on strategic, financial, operational, compliance and governance issues.

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

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

PERFORMANCE EVALUATION

A full Board performance evaluation process was undertaken in late 2009, facilitated by an external consultant, with fully documented results being presented to the March 2010 Board meeting. The process was carefully structured but pragmatic, tailored to bring about a genuine debate of issues that are relevant, and assisted in identifying any potential for improvement in the Company's processes. It entailed the completion of detailed questionnaires on the performance of the Board, its committees and its executive and non-executive Directors by each Director (excluding Clinton Dines who was appointed on 1 October 2009) and the preparation of a composite report. The evaluation report concluded that the Board and its committees continue to operate effectively and each Director is contributing effectively and demonstrates commitment to his role. While being satisfied with its overall performance, the Board is developing action plans in respect of certain areas identified for improvement including, for example, the setting of further non-financial targets and a greater focus on succession planning.

During the year, the Chairman held a number of meetings with non-executive Directors without executive Directors being present. The Senior Independent Director also led the non-executive Directors in evaluating the performance of the Chairman.

CONFLICTS OF INTEREST

The Companies Act 2006 introduced a new statutory duty in October 2008 requiring a director to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect.

Shareholders approved amendments to the Company's Articles of Association at the 2008 Annual General Meeting which included provisions giving the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed prior to the coming into force of this legislation. There is no breach of duty if the relevant situation has been so authorised in advance.

The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. Under this procedure, Directors are required to declare all directorships or other appointments outside of the Group and which could give rise to a conflict or potential conflict of interest. In consideration of each conflict or potential conflict of interest declared by a Director, firstly, only independent Directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

GOVERNANCE IN PRACTICE

PERFORMANCE EVALUATION PROCESS
FACILITATED BY EXTERNAL CONSULTANTDetailed questionnaires
covering performance:

- Board
- committees
- executive Directors
- non-executive Directors

Evaluation of executive
Directors:

- through meetings
with Chairman and
non-executive Directors

Evaluation of Chairman:

- led by the Senior
Independent Director, with
non-executive Directors

Detailed composite report

- Board and its committees
operating effectively
and each Director
contributing effectively
and demonstrating
commitment to his role
- Board developing action
plans in respect of a small
number of actions and
improvements identified

The Company Secretary minutes the consideration of any conflict or potential conflict of interest and authorisations granted by the Board are recorded by the Company Secretary in a register of conflicts of interest. On an ongoing basis, the Directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise or, if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a Director is not absolved from his duty to promote the success of the Company.

Furthermore, at the 2008 Annual General Meeting shareholders approved further amendments to the Company's Articles of Association which include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

INTERNAL CONTROL

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

The Board confirms that, throughout the year ended 31 December 2009 and up to the date of approval of this Annual Report and Accounts, there have been processes in place for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance.

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

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

- Group financial, treasury, operating and administrative policies and procedures which incorporate statements of required behaviour;
- continuous review of safety, operating and financial performance of the Group's businesses;
- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short-term forecasts, annual budgets and long-term plans;
- well-defined procedures for appraisal, approval, control and review of major capital projects, including acquisitions and disposals;
- an established methodology for ranking the level of risk in each of its business operations and the significant risk issues associated therewith;
- implementation of appropriate strategies to deal with significant risks, including measures such as insurance and use of external specialists;

- a centrally coordinated internal audit programme to support the Board in its role of ensuring a sound control environment;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal control;
- a remuneration policy for executives which motivates them, without delivering excessive benefits or encouraging excessive risk taking; and
- regular reports to the Board and Group Health, Safety and Environment Committee on health, safety and environmental matters.

The Board, in conjunction with management, has agreed a number of activities to further develop the internal control environment. Progress on these initiatives, alongside the development of embedded risk management and assurance processes, is being made. Details of initiatives in the area of financial risk management can be found in the Financial Review commencing on page 36, and initiatives in the area of health, safety and the environment can be found in the Corporate Responsibility Report commencing on page 50.

All acquired businesses will be brought within the Group's system of internal control as soon as practicable and in any event within 12 months of acquisition. ENRC PLC, in which the Group has a 26% shareholding, has not been incorporated into the Group's system of internal control.

INTERNAL AUDIT

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

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

The Audit Committee receives reports from the head of internal audit on the department's work and findings and the effectiveness of the internal audit function is reviewed and discussed on an annual basis with the head of internal audit.

Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues raised. Internal audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee.

MANAGEMENT OF RISK

The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework. The Board has approved a formalised but pragmatic Group risk management framework. This framework is designed to provide assurance that risks are being identified and managed in a manner appropriate to the Group's circumstances. It comprises risk identification and assessment processes, together with risk response and monitoring activities. The Group Risk Manager coordinates the risk assessment and identification activities, and facilitates the development of appropriate responses to identified risks. Details of the process for identifying and managing the Group's risks and further information of the risks identified are set out in the Risk Factors section on pages 32 to 35.

Directors' Report: Governance

GOVERNANCE FRAMEWORK CONTINUED

SHAREHOLDER COMMUNICATIONS

The Board recognises the importance of good communications with shareholders and maintains an active dialogue with its key financial audiences, including institutional shareholders, sell-side analysts and potential shareholders. The Chief Executive and the Chief Financial Officer are closely involved in investor relations and the Head of Corporate Communications has day-to-day responsibility for such matters.

The Company has approved a communications policy which has been adopted throughout the Group. The executive Directors are available, through the Head of Corporate Communications, to discuss the concerns of major shareholders at any time during the year and the Chairman is available to discuss governance and strategy with major shareholders. Non-executive Directors, and in particular the Senior Independent Director, will continue to make themselves available to attend meetings with shareholders in order to develop an understanding of their views. The Company responds as necessary to requests from individual shareholders on a wide range of issues.

There is regular dialogue with key institutional shareholders and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group, who also from time to time visit the Group's operations. During 2009, executive Directors and senior management met with institutional investors in London, Scotland, continental Europe, United States of America and Singapore. A number of roadshows also took place during 2009 and attendance at several United Kingdom, European and American conferences provided a comprehensive dialogue with shareholders.

The Company issues quarterly production updates and interim management statements in April and October to the market. These, together with copies of institutional analyst presentations each half year, the Group's preliminary and half-yearly results and all announcements issued to the London Stock Exchange, are available on the Company's website (www.kazakhmys.com). Furthermore, the Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The Company now produces an annual Super Summary which is sent to all shareholders who have not requested hard copy documentation to advise them of the availability of the Annual Report and Accounts and Notice of Annual General Meeting on the Company's website.

The Shareholder Information section on pages 164 to 165 contains further details on electronic communications together with more general information of interest to shareholders which is also included on the Company's website.

The Notice of Annual General Meeting is circulated to all shareholders at least 20 business days prior to such a meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting at which there is an opportunity for individual shareholders to question the Chairman and, through him, the chairmen of the principal Board committees. After the Annual General Meeting, shareholders can meet informally with the Directors. Furthermore, all shareholders are entitled to receive dividends, when declared, to appoint proxies to attend any general meeting of the Company and to exercise voting rights. None of the Company's shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders.

All members of the Board (excluding Daulet Yergozhin who was unable to attend due to a conflict in schedules) attended the 2009 Annual General Meeting. At the Annual General Meeting, the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders. All resolutions at the 2009 Annual General Meeting were voted by way of an electronic poll. This procedure follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Combined Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were reported at the meeting and the final results were made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.

The Directors' responsibility statement for the preparation of the Annual Report and Accounts is set out on page 82.

BOARD COMMITTEES

The four principal committees of the Board are the Audit, Group Health, Safety and Environment, Nomination and Remuneration Committees. Board committee members are appointed by the Board upon the recommendation of the Nomination Committee, which reviews the composition of each committee regularly. Committee members are expected to attend each committee meeting, unless there are exceptional circumstances which prevent them from doing so. The Company Secretary, Robert Welch, is secretary to the Group Health, Safety and Environment, Nomination and Remuneration Committees and the Deputy Company Secretary, Stephen Hodges, is secretary to the Audit Committee. The terms of reference of each committee are available on the Company's website (www.kazakhmys.com) and on request from the Company Secretary at the Company's registered office. The terms of reference of each committee are reviewed annually. Each committee reports on its activities to the next Board meeting following its meeting.

KAZAKHMY'S BOARD OF DIRECTORS

	Audit Committee
	Group Health, Safety and Environment Committee
	Nomination Committee
	Remuneration Committee

AUDIT COMMITTEE



SIMON HEALE
Chairman, Audit Committee

Other members
Clinton Dines
Peter Hickson

The Committee is primarily responsible for reviewing and monitoring the integrity of financial reporting by the Company, for reviewing the Group's internal control and risk management systems, for monitoring the effectiveness of the Group's internal audit function and for overseeing the relationship with the external auditor.

GOVERNANCE

Simon Heale and Peter Hickson have recent and relevant financial experience; their biographies are set out on page 60. The other member of the Committee has broad experience and knowledge of financial reporting and international businesses which he brings to the Committee's deliberations. The Chief Executive, Chief Financial Officer, Company Secretary, head of internal audit and the external auditor are normally invited to attend Committee meetings.

At the end of each meeting the Committee normally meets separately with both the external auditor and head of internal audit, without management present, to facilitate the discussion of any matter relating to its remit and any issues arising from audits. Arrangements have also been adopted to ensure that the head of internal audit has direct access to the Committee chairman and is accountable to the Committee. Furthermore, the chairman of the Committee meets from time to time with the external auditor and senior management to ensure a full understanding of relevant issues.

Attendance at Audit Committee meetings

The attendance of members at scheduled meetings of the Audit Committee which they were eligible to attend and the number of meetings attended during 2009 is shown below:

Members during the year	Number of scheduled Audit Committee meetings eligible to attend	Number of scheduled Audit Committee meetings attended
Simon Heale	5	5
Philip Aiken (until 30 September 2009)	4	4
Clinton Dines (from 1 October 2009)	1	1
Peter Hickson (from 5 March 2009)	4	3

In addition to the five scheduled meetings of the Audit Committee during the year, three further meetings were arranged at short notice to deal with specific matters.

ROLE OF THE AUDIT COMMITTEE

Key roles and responsibilities of the Audit Committee include to:

- monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and interim management statements, reviewing significant financial reporting issues and judgements which they contain;
- review and challenge, where necessary, the consistency of, and changes to, accounting policies across the Group, methods used to account for significant and unusual transactions, the clarity of disclosure in the Company's financial reports, the reporting of related party transactions, the going concern assumption and compliance with stock exchange and other reporting requirements;
- keep under review the Group's strategy with regard to risk and the effectiveness of the Group's financial reporting, internal control and assurance systems;
- review the Group's insurance arrangements;
- be responsible for recommending to the Board treasury and capital management policies;
- monitor and review the effectiveness of the Group's internal audit function, approving its terms of reference and reviewing and approving the annual internal audit plan and review and monitor management's response to the findings and recommendations of the internal audit function;
- consider and make recommendations to the Board for the approval of the appointment and re-appointment of the external auditor;
- approve the remuneration of the external auditor including the level and nature of fees for non-audit services and their terms of engagement and assessing annually the independence and objectivity of the external auditor, including the provision of any non-audit services;
- review and approve the annual audit plan of the external auditor and ensure that it is consistent with the scope of the audit engagement;
- review any management letter received by management from the external auditor and monitor the Group's implementation of the recommendations made;
- review any representation letter(s) requested by the external auditor before they are signed by management;
- review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoings in financial reporting and other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- review annually the Committee's own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Directors' Report: Governance

GOVERNANCE FRAMEWORK

ACTIVITIES IN 2009

At its meetings in 2009, the Committee considered, amongst other matters, the following:

Financial reporting:

- reviewed interim management statements, half-yearly and annual results, including accounting policies, estimates and judgements applied in preparing them and the transparency and clarity of the disclosures within them;
- received reports from management and the external auditor on accounting, tax and legal issues; and
- reviewed the basis for preparing the Group accounts on a going concern basis.

Internal control:

- received reports from management on the implementation of enhanced financial reporting procedures and controls, and IT systems;
- reviewed the design and effectiveness of the Group's system of internal control as set out on page 67 and the disclosures made in the Annual Report and Accounts on this matter; and
- reviewed the Group's processes for disclosing information to the external auditor and the statement concerning such disclosure in the Annual Report and Accounts.

Risk management:

- reviewed the effectiveness of the Group risk management framework as described on page 32 and reports arising out of the risk management process; and
- monitored the Group's insurance arrangements.

Internal audit:

- approved the internal audit department's strategic and operational plans and reports from the internal audit department; and
- reviewed the level of resources allocated to internal audit to ensure the audit plan could be delivered as part of the overall assessment of the effectiveness of the internal audit department.

External audit:

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

Other matters:

- reviewed the Group's whistleblowing arrangements by which staff may, in confidence, raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters;
- reviewed the relevant disclosures in this Annual Report and Accounts; and
- reviewed the Committee's effectiveness and terms of reference.

The Committee also receives reports on developments in financial reporting practices, legislative and regulatory changes and other relevant matters so as to enable it to fulfil its responsibilities.

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

Details of the amounts paid to the external auditor for audit and non-audit services for the year ended 31 December 2009 and information on the nature of non-audit fees appear in note 11 to the financial statements on page 119.

GROUP HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

PHILIP AIKEN

Chairman, Group Health, Safety and Environment Committee



Other members

Peter Hickson
David Munro

The Committee is primarily responsible for evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group, for recommending to the Board the Group's policies on health, safety and environmental matters and for ensuring that an effective system of health, safety and environmental standards, procedures and practices is in place at each of the Group's operational sites.

All meetings of the Committee during the year were held in Kazakhstan and involved site visits and meetings with management responsible for health and safety, with all visits lasting for two or three days.

Attendance at Group Health, Safety and Environment Committee meetings

The attendance of members at scheduled meetings of the Group Health, Safety and Environment Committee which they were eligible to attend and the number of meetings attended during 2009 is shown below:

Members during the year	Number of scheduled Group Health, Safety and Environment Committee meetings eligible to attend	Number of scheduled Group Health, Safety and Environment Committee meetings attended
Philip Aiken	3	3
Peter Hickson (from 5 March 2009)	3	2
David Munro	3	3

Details of the Committee's main functions and activities during the year are given in the Corporate Responsibility Report commencing on page 50.

NOMINATION COMMITTEE



VLADIMIR KIM
Chairman, Nomination Committee

Other members
Philip Aiken (from 26 August 2009)
Simon Heale
Lord Renwick of Clifton

The Committee is primarily responsible for leading the process for Board appointments and for keeping under review the balance of skills, knowledge and experience on the Board for ensuring the orderly evolution of the membership of the Board.

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

GOVERNANCE

The Nomination Committee is chaired by the Chairman of the Company. Whilst he is not deemed to be independent, the majority of the members of the Committee are independent non-executive Directors in accordance with provision A.3.1 of the Combined Code. When dealing with any matters concerning the Chairman of the Company, the chairman of the Committee will absent himself from meetings, as required, and Lord Renwick would take the chair.

Attendance at Nomination Committee meetings

The attendance of members at scheduled meetings of the Nomination Committee which they were eligible to attend and the number of meetings attended during 2009 is shown below:

Members during the year	Number of scheduled Nomination Committee meetings eligible to attend	Number of scheduled Nomination Committee meetings attended
Vladimir Kim	3	2
Simon Heale	3	3
Lord Renwick	3	3

There have been no meetings of the Nomination Committee since Philip Aiken became a member on 26 August 2009.

ROLE OF THE NOMINATION COMMITTEE

Key roles and responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise which are therefore needed on the Board in the future;
- responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- recommend to the Board suitable candidates for the role of Senior Independent Director, and membership of the Audit, Group Health, Safety and Environment and Remuneration Committees;
- recommend the re-appointment of any non-executive Director at the conclusion of their specified term of office having given regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- recommend the re-election by shareholders of any Director under the retirement provisions in the Company's Articles of Association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and
- review annually the Committee's own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

ACTIVITIES IN 2009

At its meetings in 2009, the Committee considered, amongst other matters, the following:

- reviewed the composition of the Board and its committees to ensure the appropriate mix of skills and experience are present;
- recommended to the Board the appointment of Peter Hickson and Clinton Dines as independent non-executive Directors;
- recommended to the Board the appointment of Philip Aiken as a member of the Nomination Committee, Clinton Dines as a member of the Audit Committee and Peter Hickson as a member of the Audit and Group Health, Safety and Environment Committees;
- reviewed the time commitment required by non-executive Directors to fulfil their duties; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE

LORD RENWICK OF CLIFTON, KCMG

Chairman,
Remuneration Committee

Other members

Philip Aiken
Simon Heale

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the 2009 financial year, which sets out the Company's remuneration policy for executive Directors and non-executive Directors and provides details of their and certain senior managers' remuneration and share interests for the year ended 31 December 2009.

This report has been prepared in accordance with the reporting requirements of The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008.

The unprecedented global economic downturn created an unusually challenging economic environment. Kazakhmys has nevertheless delivered a robust set of results while taking significant steps to promote long-term growth.

During 2009, the Committee reviewed Kazakhmys' approach to executive remuneration and the use of share-based incentives across the Group. The review was driven by the changing economic climate, the continued evolution of the Group since its Listing and the need to remain competitive in the mining sector in which Kazakhmys competes for talent.

In order to ensure that Kazakhmys can continue to attract, motivate and retain high calibre personnel it is essential to offer arrangements which are competitive with other industry participants. This year, at Kazakhmys' Annual General Meeting, the Company will be seeking formal shareholder approval for UK and International Sharesave plans and UK and International Share Incentive plans. The Company will also be seeking approval of the rules of, and a number of amendments to, Kazakhmys' Long Term Incentive Plan and Executive Share Option Plan. Details of these plans are included in the Notice of Meeting, which accompanies this Annual Report and Accounts.

As part of its review, the Committee considered the remuneration arrangements of the executive Directors and senior managers and determined that Oleg Novachuk and Eduard Ogay should be eligible to participate in Kazakhmys' share-based incentive plans to further align their interests with those of shareholders and better allow them to participate in the long-term success of the Group.

During 2010, the Committee will be considering the changes being proposed by the Financial Reporting Council to the Combined Code on Corporate Governance and the recommendations arising from the Walker Review on corporate governance in UK banks and other financial institutions published in November 2009, and their implications for the Company's remuneration policy. Any changes to the Company's remuneration policy will be reported in next year's Directors' Remuneration Report.

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of executive Directors and certain senior managers. The Committee also has responsibility for the design of any share-based incentive plans operated by the Company, and is required to oversee the administration of such plans, including award levels to individual executive Directors and other senior managers.

GOVERNANCE

The Committee is chaired by Lord Renwick and all of the Committee members are considered by the Board to be independent non-executive Directors. The Company Secretary attends meetings as secretary to the Committee. The Chairman and Chief Executive are normally invited to attend meetings to provide information and advice to the Committee to enable it to make informed decisions. They are, however, specifically excluded from any matter concerning their own remuneration.

As required by the Companies Act 2006, a resolution to approve this report will be proposed at the Company's Annual General Meeting on 14 May 2010.

Attendance at Remuneration Committee meetings

In 2009 the Committee met three times and details of attendance at these meetings are provided in the table below. After each meeting the chairman of the Committee presented a report on its activities to the full Board.

Members during the year	Number of scheduled Remuneration Committee meetings eligible to attend	Number of scheduled Remuneration Committee meetings attended
Lord Renwick	3	3
Philip Aiken	3	3
Simon Heale	3	3

In addition to the three scheduled meetings of the Committee during the year, a further meeting was arranged at short notice to deal with specific matters.

ROLE OF THE REMUNERATION COMMITTEE

The Committee's principal responsibilities are:

- determining, reviewing and recommending to the Board the framework for executive remuneration;
- within the agreed framework, setting, reviewing and determining individual remuneration arrangements for executive Directors (including the Chairman) and certain senior managers;
- approving the design of, and determining the targets for, any performance-related pay schemes;
- determining the design of any share incentive schemes for approval by the Board, and the grant, award, allocation or issue of shares, share options or payments under any such schemes; and
- approving the service agreements of each executive Director, including termination arrangements.

The full terms of reference of the Committee are available on the Company's website (www.kazakhmys.com) or on request from the Company Secretary's department at the Company's registered office.

ACTIVITIES IN 2009

At its meetings in 2009, the Committee considered, amongst other matters, the following:

- the 2008 Directors' Remuneration Report;
- evaluation of the performance of the Committee;
- the Committee's remit;
- levels of base salary for executive Directors and certain senior managers;
- determining annual bonus outturn for executive Directors and certain senior managers;
- setting awards levels and performance targets in respect of the Company's share-based incentive plans;
- changes to the LTIP comparator group;
- introduction of a number of new equity-based incentive schemes;
- introduction of new and revised bonus arrangements for below Board level employees;
- proposed terms of appointment for David Munro; and
- incentive arrangements for David Munro.

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. In the year to 31 December 2009, the Committee received advice on executive compensation, performance-related pay schemes and equity-based incentive schemes from Hewitt New Bridge Street (HNBS). HNBS also provides advice to the Company on remuneration matters for senior employees including equity-based incentives. The terms of engagement between the Committee and HNBS are available on request.

Remuneration policy

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

In constructing and reviewing remuneration packages, the emphasis is on rewarding executive Directors competitively for their contribution to the Company's performance and for enhancing value to shareholders, taking into account market comparisons, the competitive pressures in the mining sector, internal relativities and sound risk management practices. External comparisons, including annual assessments of the relevant senior executive remuneration market, look at comparable roles in similar organisations in terms of operations and market capitalisation. The Committee continues to take a responsible approach toward benchmarking and aims to set reward opportunity for executive Directors within the market competitive range, but with a balanced overall positioning.

Directors' Report: Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

The strategy for executive Director remuneration, in general terms, is to provide a balanced package around the relevant mid-market level for comparable mining companies and other companies of a similar size to Kazakhmys in the FTSE 100, with a high proportion of total remuneration being awarded through performance-related elements. In addition to consideration of market data, when setting salaries, individual judgement is exercised by the Committee, having regard to an individual's performance, experience and responsibilities, the Company's performance as a whole, the markets in which the Group operates and remuneration levels of Group employees. Remuneration arrangements and performance targets are reviewed on a regular basis to achieve these objectives.

The Committee strives to ensure that the remuneration policy provides a strong and demonstrable link between incentives and the Group's strategy, and sets a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances, and which motivates its executive Directors and senior managers and enables them to share in the long-term success of the Group, without delivering excessive benefits or encouraging excessive risk taking.

When designing remuneration structures and setting performance targets the Committee is mindful of environmental, social and governance (ESG) matters. In particular, it will consult with the Group Health, Safety and Environment Committee to ensure effective systems are in place to mitigate against any risks in remuneration incentives. The Committee monitors progress and achievement against ESG key performance indicators which, in part, determine the operational performance component of the annual bonus of the executive Directors.

The Committee intends to continue with the remuneration policy for 2010 and subsequent years, and will continue to consult on material changes with major institutional shareholders.

As previously stated, the Committee will be considering during 2010 the proposed changes to the Combined Code on Corporate Governance and the recommendations arising from the Walker Review, and their implications for the Company's remuneration policy. In particular, the Committee will be reviewing its remuneration policy in the context of risk and ensuring that risk management controls are in place and operating effectively.

At present the Committee already reviews the remuneration incentives offered to those key individuals that have the most impact on the risk profile of the business. The Committee is satisfied with the way in which performance objectives and risk assessments are reflected in the pay structures for these individuals.

Overall the Committee is satisfied that remuneration policy is aligned with the long-term needs of the business and that incentive quantum, structure and objectives do not encourage excessive risk-taking. The substantial shareholdings of the executive Directors and certain senior managers assist alignment with shareholder value.

Review of remuneration, and proposed changes for 2010/2011

During the year, the Committee undertook a comprehensive review of executive remuneration arrangements and the share-based incentive arrangements used more widely throughout the Group.

As a result of the review, the Committee decided to make and propose certain changes to its share-based incentive arrangements in order for Kazakhmys to maintain its competitive position and better align the interests of its employees with those of its shareholders. The key elements of the changes can be summarised as follows:

Proposed UK and International Sharesave Plans

Shareholder approval is being sought for new UK Sharesave and International Sharesave plans. These Sharesave plans provide an opportunity for eligible employees to save over a period of either three or five years and to use their accumulated savings (and any interest) to exercise an option to acquire Kazakhmys shares at a predetermined exercise price.

The terms of the UK Sharesave plan and the International Sharesave plan are substantially the same, save that under the International Sharesave plan the Committee will have a greater degree of discretion to determine who of its 61,000 plus employees will be eligible to participate and to permit eligible employees to save in a currency other than pounds sterling. The International Sharesave plan may be amended to adopt procedures in relation to its implementation to take account of overseas securities laws, exchange controls, taxation, financial regulations and both local custom and practice.

The UK Sharesave plan will be subject to the approval of Her Majesty's Revenue & Customs (HMRC) and has a number of tax benefits; in particular, no income tax or National Insurance contributions will normally be due if the option is exercised after three years.

Subject to the approval of the Company's shareholders, it is currently intended that invitations to participate in the Sharesave plans will be offered for the first time in or around August 2010 shortly following the announcement of the Company's half-yearly results. A summary of the principal terms of the Sharesave plans is set out in Appendix I to the Notice of AGM which accompanies this Annual Report and Accounts.

Proposed UK Share Incentive Plan (UK SIP) and International Share Incentive Plan (International SIP)

The UK SIP and International SIP will allow eligible employees the opportunity to purchase Kazakhmys shares, in the case of the UK SIP, out of their gross earnings and, in the case of the International SIP, out of their net earnings of up to £1,500 per tax year (or the local currency equivalent) or, if less, an amount up to 10% of annual salary (known as partnership shares). The Company may then match the number of partnership shares purchased by an employee up to a maximum match of two shares for every one partnership share purchased. In addition, the Company may also offer eligible employees free shares worth up to £1,500 per tax year (or the local currency equivalent).

The terms of the UK SIP and the International SIP are substantially the same, save that under the International SIP the Committee will have a greater degree of discretion to determine who of its 61,000 plus employees will be eligible to participate. The Committee may also, in its discretion, change the structure of awards and adopt procedures in relation to its implementation to take account of overseas securities laws, exchange controls, taxation, financial regulations and both local custom and practice.

The UK SIP will be subject to the approval of HMRC and has a number of tax benefits; in particular, if plan shares are held in the UK SIP for at least five years, no income tax or National Insurance contributions will be payable when the shares are withdrawn from the employee benefit trust.

Subject to the approval of the Company's shareholders, it is currently intended that invitations to participate in the SIPs will be offered for the first time in or around April 2011 shortly following the announcement of the Company's preliminary results for 2010. To encourage employee ownership of Kazakhmys shares, the Company intends to match, share for share, each partnership share bought on a one for one basis. A summary of the principal terms of both the UK SIP and International SIP are set out in Appendix I to the Notice of AGM which accompanies this Annual Report and Accounts.

Long Term Incentive Plan (LTIP)

The rules of the LTIP were approved and adopted by the Board on 3 September 2007. The LTIP is a discretionary long-term incentive plan and provides for the grant of conditional free share awards to certain selected senior managers and employees (excluding executive Directors). Awards will normally vest three years from the date of grant, subject to the achievement of demanding performance criteria based on Kazakhmys' relative total shareholder return (TSR) performance. At present awards under the LTIP may only be satisfied using existing shares purchased in the market.

The Committee wishes to amend the LTIP to permit the grant of awards to executive Directors and to allow future awards to be satisfied using new issue shares and treasury shares as well as existing shares purchased in the market. Accordingly, shareholders are being asked to approve amendments to the rules of the LTIP that will permit awards to be granted to executive Directors and to allow the Committee to grant and satisfy future awards over new issue shares and treasury shares as well as existing shares. The principal terms of the LTIP and the proposed amendments are described in more detail in the summary of the LTIP as set out in Appendix II to the Notice of AGM.

Subject to the approval of the Company's shareholders, the Committee decided in September 2009 to make an LTIP award with a face value of up to two times salary to Oleg Novachuk, subject to the same performance condition (and performance period) applying to the award made to Eduard Ogay on 26 November 2009, in order to retain his services as Chief Executive and allow him to participate in the long-term success of the Group. However, the award will not vest until the third anniversary of its date of grant. No LTIP awards will be made to either Vladimir Kim, due to his substantial shareholding in the Company, or David Munro, who is unable to commit to carrying out his present duties for the Company in Kazakhstan for more than two years.

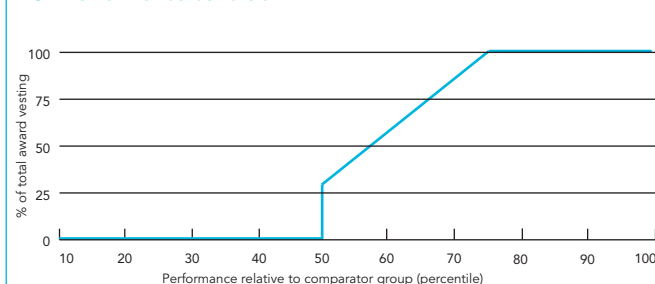
The main objective of introducing LTIP awards into the remuneration structure for Oleg Novachuk is to provide a more balanced, performance-biased remuneration package consistent with packages provided to other chief executives in comparator group companies which:

- takes into account current best practice in corporate governance and fits with Kazakhmys' need to motivate its executive Directors;
- provides a mix of performance targets to reward both absolute and relative performance;
- provides a more appropriate balance between short-term and long-term reward, with balance becoming more long-term; and
- provides a more appropriate balance between fixed and variable compensation, with phased delivery over the short, medium and long term.

Performance measure

Under the current and proposed TSR performance condition, Kazakhmys' performance will be compared to a comparator group of 22 UK and international mining companies, with no vesting below median TSR, 30% vesting for median performance and full vesting for upper quartile performance; a sliding scale of vesting will be applied for performance between median and upper quartile. This target will be reviewed annually to ensure that it remains demanding for future award grants. In the event of a change of control, awards will normally vest on a pro rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time.

TSR Performance condition



During the year, the Committee reviewed the comparator group and the following companies were added: Cameco Corporation, Fresnillo plc, Hochschild Mining plc, Inmet Mining Corporation and Southern Copper Corporation. In addition, Zinfex Limited was removed from the comparator group following its merger with Oxiana Limited. The current group of comparator companies (applicable for awards granted in 2010) comprises:

Alcoa Inc	Anglo American plc
Antofagasta plc	Aquarius Platinum plc
BHP Billiton plc	Boliden AB
Cameco Corporation	Eurasian Natural Resources Corporation PLC
First Quantum Minerals Ltd	Freeport-McMoran Copper & Gold Inc
Fresnillo plc	Hochschild Mining plc
Inmet Mining Corporation	Korea Zinc Inc
Lonmin plc	Lundin Mining Corporation
Rio Tinto plc	Southern Copper Corporation
Sumitomo Metal Mining Co. Ltd	Teck Resources Ltd 'B'
Vedanta Resources plc	Xstrata plc

Proposed Executive Share Option Plan (ESOP)

The ESOP is an HMRC approved discretionary company share option plan that provides for the grant of market value options up to a value of £30,000 to certain selected UK-based senior managers (excluding executive Directors). Options will normally vest three years from the date of grant, subject to the satisfaction of performance conditions and the participant being a director or employee of the Group at that time. At present options under the ESOP may only be satisfied using existing shares purchased in the market.

The Committee wishes to amend the ESOP to permit the grant of options to executive Directors and for options to be satisfied using new issue shares and treasury shares as well as existing shares purchased in the market.

Options granted to executive Directors and senior managers under the ESOP in the future will count towards the individual limits under the LTIP and will normally be subject to the same performance conditions as awards granted under the LTIP.

Accordingly, shareholders are being asked to approve amendments to the rules of the ESOP that will permit awards to be granted to executive Directors and to allow the Committee to grant and satisfy future awards over new issue shares and treasury shares as well as existing shares. The principal terms of the ESOP and the proposed amendments are described in more detail in the summary of the ESOP as set out in Appendix II to the Notice of AGM.

Directors' Report: Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

ELEMENTS OF REMUNERATION

Element	Purpose	Methodology
Base salary	To attract and maintain high quality executives reflecting market value of role and executive's skills and experience	<ul style="list-style-type: none"> – Benchmarked against comparable mining companies and other companies of a similar size – Company and individual performance – Economic environment – Remuneration levels of Group employees
Annual bonus scheme Vladimir Kim and Oleg Novachuk <ul style="list-style-type: none"> – Target bonus – 60% of salary – Maximum bonus – 120% of salary David Munro <ul style="list-style-type: none"> – Target bonus – 100% of salary – Maximum bonus – 200% of salary 	To incentivise the delivery of annual objectives consistent with the Group's strategy	Payments determined on the basis of a number of discrete elements: <ul style="list-style-type: none"> – Operational performance (including safety) – 33.4% – Financial performance – 22.2% – Strategic development – 22.2% – Shareholder return – 22.2% – Improvement in the cost base under the Group's Change Management Plan – 50% – Overseeing progress on the Aktogay and Bozshakol projects – 50%

Executive Director remuneration in 2009

The Committee determines the remuneration package for the executive Directors and certain senior managers. The package is designed to attract and retain high quality executives, induce loyalty and motivate them to achieve a high level of long-term corporate performance in line with the best interests of shareholders, whilst avoiding excessive short-term risk taking. The principal elements of remuneration for executive Directors in 2009 were base salary, benefits in kind and an annual bonus opportunity, which are further explained below.

Base salary and benefits

Base salaries are reviewed annually, with any increases normally effective from 1 January. Adjustments in base salary are made to reflect movements in the employment market, the general economic environment, internal relativities and individual and Company performance. Base salaries paid to executive Directors are adjusted to take account of the absence of any pension provision. In line with competitive practice, executive Directors are entitled to receive additional benefits including use of a car for business purposes and medical insurance.

The base salaries for the executive Directors for 2008, 2009 and 2010 are shown in the table below. For 2009 Vladimir Kim and Oleg Novachuk accepted a decrease in their base salaries of approximately 9%, reflecting the difficult economic environment of the Group. With effect from 1 January 2010, they received a 5% increase in their 2009 base salaries. The increase reflects their contribution to the strong performance of the Group in 2009 and the levels of base salary and total remuneration in comparator companies. For David Munro whose salary was increased from £600,000 to £720,000 with effect from 1 April 2009, reflecting his relocation and that of his family to Kazakhstan and the direct role he is playing in modernising and improving the Company's operations in Kazakhstan, and the fact that he does not participate in any share-based incentive plans. With effect from 1 April 2010, he will receive an increase in salary to £750,000. The base salaries of the Group's workforce in the United Kingdom and Kazakhstan increased on average by approximately 4.2% and 7.5% for 2010, respectively.

Executive Directors' base salaries	2008 £000	2009 ¹ £000	2010 £000
Vladimir Kim	1,029	930	977
Oleg Novachuk	819	750	788
David Munro	525	720	750 ²

¹ Base salary with effect from 1 April 2009.

² With effect from 1 April 2010.

Annual bonus opportunity

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

For 2009, the potential maximum performance-related bonus payable was 120% of base salary for Vladimir Kim and Oleg Novachuk, and 200% of base salary for David Munro.

Bonuses, which are payable wholly in cash, are disclosed for the year in which they are earned although they are not due and payable until the following March after the release of the audited financial results.

Vladimir Kim and Oleg Novachuk

For Vladimir Kim and Oleg Novachuk the annual bonus opportunity comprises four discrete elements: an operational performance component (including safety) (representing 33.4% of potential bonus), a financial performance component (representing 22.2% of potential bonus), a strategic development measure (including execution of new projects) (representing 22.2% of potential bonus) and a shareholder return measure (representing 22.2% of potential bonus). Specific targets are not disclosed as they would give a clear indication of the Group's business targets which are commercially sensitive.

In determining the actual bonus payments, the Committee takes into consideration such factors as performance related to the Group's financial KPIs, operational performance against budget, safety performance, business development activities and performance against industry peers. Payments are made in return for the achievement of stretching objectives.

In the course of 2009, Kazakhmys substantially outperformed both the FTSE100 comparator group and the FTSE350 Mining Index. Helped by the recovery in copper prices, but also by very effective management actions to control costs and successfully develop the Group's strategy, including the sale of 50% of the Ekibastuz GRES-1 power business to Samruk and progress in securing a \$2.7 billion loan from the China Development Bank and Samruk for the development of the Bozshakol and other organic growth projects, Kazakhmys delivered the best share price performance on the FTSE100 over the calendar year.

Executive Directors' total remuneration	Vladimir Kim		Oleg Novachuk		David Munro	
	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000
Salary	1,029	955	819	767	525	671
Benefits	34	34	35	23	1	5
Annual Bonus	360	812	287	652	210	805
Total Remuneration	1,423	1,801	1,141	1,442	736	1,481

1 Vladimir Kim received an aggregate salary of £955,000 in 2009. Of this salary, £647,000 was paid by Kazakhmys Corporation LLC and the balance was paid by the Company. An adjustment is made to his salary each year to ensure that his aggregate salary for the year equates to his salary denominated in UK pounds sterling as a result of exchange rate differences.

In recognition of these achievements, bonuses earned by Vladimir Kim and Oleg Novachuk in 2009 were 85% of base salary, compared with 35% of base salary in 2008, reflecting the Group's strong performance in 2009. A top decile performance target on shareholder return and above target performance on the other three measures were achieved. The actual bonus payments received by them are shown in the table opposite.

David Munro

In deference to the views of some shareholders and governance institutions, David Munro decided to forego options granted to him under a special once-only share option grant under Listing Rule 9.4.2(R) as well as participation in the Change Management Plan as detailed in the 2008 Annual Report and Accounts. Following this decision and as David Munro does not receive any share-based incentives due to the time-frame to which he is committed to his present role with the Company (not more than two years), and nor does he receive any pension benefits, it was agreed that his base salary should be increased to £720,000 per annum (£750,000 per annum with effect from 1 April 2010) and that his maximum bonus entitlement should be increased to two times salary, with a target level of one times salary.

David Munro's annual bonus opportunity comprises two discrete elements: measurable improvements in the cost base of the Company and its operations under the programme of change being developed and implemented by him in Kazakhstan (representing 50% of potential bonus) and progress on the Group's two major organic growth projects – Aktogay and Bozshakol (representing 50% of potential bonus).

In determining the actual bonus payment, the Committee takes into consideration such factors as improvements in procurement, outsourcing, maintenance and development, mine planning, IT support and training (net of any currency movements), safety performance and culture, and the achievement on time and on budget of the various project milestones of the Group's major organic growth projects.

The bonus earned by David Munro in 2009 has been set at 120% of base salary. Above target performance on both measures was achieved in 2009 reflecting the significant progress made in developing a change management plan across the Group's businesses in Kazakhstan and in developing the Aktogay and Bozshakol projects.

Pensions

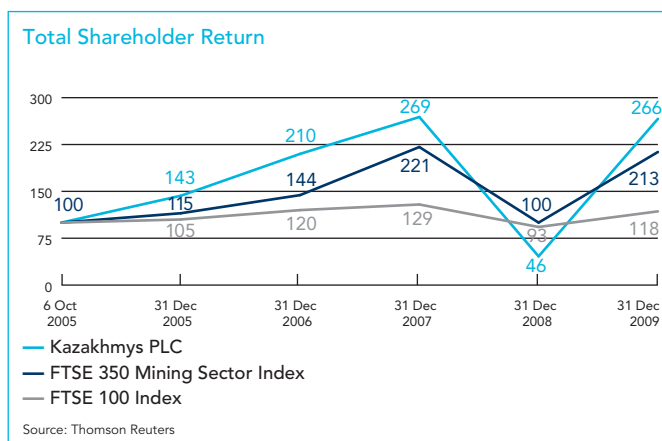
The Company does not provide pension benefits on behalf of any executive Directors. The absence of any pension provision is taken into account when setting base salaries and other elements of remuneration.

Employee Benefit Trust

The Kazakhmys Employee Benefit Trust has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise of awards under the Group's share-based incentive plans. The trustees of the Kazakhmys Employee Benefit Trust have informed the Company that their intention is to abstain from voting in respect of the Kazakhmys shares held in the trust.

Performance graph

The graph below shows the value, at 31 December 2009, of £100 invested in Kazakhmys PLC shares on 6 October 2005 (the initial Listing date) compared with an equivalent investment in the FTSE 100 Index and FTSE 350 Mining Sector Index. These indices were chosen as they are broad-based indices of which the Company is a member and are widely recognised performance comparisons for large UK mining companies.



Directors' Report: Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Service agreements

The Company's policy is that executive Directors will be employed on a contract that can be terminated by the Company on giving no more than one year's notice, with the Director required to give up to six months' notice of termination. The contracts of Vladimir Kim and Oleg Novachuk are terminable by either the Company or the executive on three months' notice. These were granted to them on 26 September 2005. The contract of David Munro is terminable by either the Company or him on giving six months' notice. The contract was granted to him on 30 March 2009.

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

Policy on external appointments

The Committee believes that the Company can benefit from executive Directors holding one approved non-executive directorship of another company, offering Directors the opportunity to broaden their experience and knowledge. Company policy is to allow Directors to retain fees paid from any such appointment. David Munro is a non-executive director of Lonmin plc and is a member of its Nomination Committee and Safety and Sustainability Committee. In this capacity he receives a total annual fee of £65,000 which he retains.

Non-executive Directors

Non-executive Directors do not have service contracts but each has a letter of appointment with the Company. Each letter of appointment provides for a one-month notice period. Non-executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board. Non-executive Directors are subject to election at the AGM following their appointment and subsequently at intervals of no more than three years. For each non-executive Director who served during 2009, the effective date of their letter of appointment and the date of the next Annual General Meeting at which they are subject to re-election or election is shown in the table below.

	Date of appointment	Next AGM re-election or election
Philip Aiken	1 November 2006	May 2010
Clinton Dines	1 October 2009	May 2010
Simon Heale	1 January 2007	May 2010
Peter Hickson	5 March 2009	May 2012
Vladimir Ni	23 September 2005	May 2011
Lord Renwick of Clifton, KCMG	1 December 2005	May 2011
Daulet Yergozhin	19 November 2008	May 2012

Non-executive Director fees

Fees for the non-executive Directors are determined by the Board as a whole, upon the recommendation of the executive Directors, with regard to market practice and to reflect individual responsibilities and membership of Board Committees.

The Board reviews non-executive Directors' fees periodically. In 2009, the base fee for non-executive Directors was reduced from £120,000 to £84,000, with additional fees paid to the Senior Independent Director, and Board Committee chairmen and members. Non-executive Directors do not participate in any of the Company's share schemes or incentive plans, nor do they accrue pension benefits from the Company for their non-executive Director services. The fee structure as at 31 December 2009 is shown below. No increase in non-executive Director fees is proposed for 2010.

Base fee	£84,000
Plus:	
Senior Independent Director	£12,000
Chairman of the following Board Committees:	
Audit, GHSE and Remuneration	£12,000
Member of the following Board Committees:	
Audit, GHSE and Remuneration ¹	£6,000

¹ No fee is paid for membership of a Committee if a non-executive Director already receives a fee as either the Senior Independent Director or the chairman of a Board Committee.

Fees paid to non-executive Directors during the year ended 31 December 2009 are set out below:

	2008	Total fees 2009
Non-executive Directors' fees	£000	£000
Philip Aiken	120	109
Clinton Dines (from 1 October 2009)	–	23
Simon Heale	120	102
Peter Hickson (from 5 March 2009)	–	79
Vladimir Ni ¹	385	415
Lord Renwick of Clifton, KCMG	120	102
Daulet Yergozhin ²	14	93

¹ Vladimir Ni's remuneration consists of two elements: a non-executive Director's fee of £93,000 per annum in respect of his duties as a non-executive Director of the Company and a salary of \$502,000 (£322,000) per annum in respect of his duties as chairman of Kazakhmys Corporation LLC.

² As a minister of the Government of Kazakhstan, Daulet Yergozhin is not permitted to receive fees personally and his fees were paid to the Biodiversity Fund of Kazakhstan.

Chief Financial Officer's remuneration

The emoluments for the year ended 31 December 2009 of Matthew Hird, Chief Financial Officer, were as shown in the table below.

	Base salary	Annual bonus	Total 2009
	£000	£000	£000
Chief Financial Officer's remuneration			
Matthew Hird	409	327	736

Matthew Hird is also entitled to participate in a defined contribution pension scheme operated for all UK-based staff (excluding executive Directors).

LTIP awards for senior managers

Selected senior managers, excluding executive Directors, are entitled to participate in the Kazakhmys Long Term Incentive Plan 2007. Awards under this plan were granted for nil consideration over a total of 262,987 shares on 7 April 2009 and over 74,240 on 26 November 2009, when the prevailing market price was 421p and 1,213p, respectively. These awards will vest on 7 April 2012 and 26 November 2012, respectively, to the extent that the performance condition set out on page 75 is satisfied. Awards granted under the plan included 72,531 awards to Matthew Hird. Further details of the Company's senior executive equity-based incentive plans are given in note 26 on page 132.

Directors' interests in ordinary shares

The interests of the Directors who held office at 31 December 2009 in the Company's ordinary shares as at that date and 1 January 2009 are shown in table below.

Directors' interests in ordinary shares	Ordinary shares at 1 January 2009	Ordinary shares at 31 December 2009
Philip Aiken	4,000	4,000
Simon Heale	5,000	5,000
Vladimir Kim	208,183,588	208,183,588
David Munro	41,211	41,211
Vladimir Ni	11,686,855	11,686,855
Oleg Novachuk	34,923,423	34,923,423
Lord Renwick of Clifton, KCMG	4,000	4,000

1 No changes in Directors' interests occurred in the period 1 January 2010 to 29 March 2010.

2 The market value of the Company's shares in 2009 was in the range of 199p to 1,328p.

Auditable information

The Group's auditors, Ernst & Young LLP, have audited the information contained in the tables headed Executive Directors' base salaries, Executive Directors' total remuneration, non-executive Directors' fees, Chief Financial Officer's remuneration and Directors' interests in ordinary shares.

On behalf of the Board

Lord Renwick

Chairman, Remuneration Committee

29 March 2010

Directors' Report: Governance

OTHER STATUTORY INFORMATION

Principal activities

Kazakhmys PLC is the holding company of the Kazakhmys Group. The principal activities of the Group are the production of copper and other metals as by-products, including zinc, silver and gold, and power generation.

A list of main subsidiary undertakings, and their principal activity, is given in note 44 on page 149.

Directors

The Directors of the Company who served during the year were as indicated on pages 60 and 61. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 79.

Clinton Dines was appointed to the Board as a non-executive Director on 1 October 2009. Newly appointed Directors are required to retire at the first Annual General Meeting (AGM) following their appointment and to seek election by shareholders. Therefore, Clinton Dines will be seeking election by shareholders at the 2010 AGM.

In accordance with the Company's Articles of Association, Philip Aiken, Simon Heale and David Munro will retire as Directors at the forthcoming AGM and, being eligible, will offer themselves for re-election. As explained in the service agreement paragraph on page 78, David Munro has a service agreement terminable by the Company or the Director on six months' notice. Neither Philip Aiken nor Simon Heale has a service agreement.

During the year no Director had any interest in any shares or debentures of the Company's subsidiaries, or any material interests in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

Directors' indemnity and insurance

Kazakhmys maintains liability insurance for its Directors and officers. The Company has also granted indemnities to each of the Directors, Matthew Hird (Chief Financial Officer) and the Company Secretary to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director (or officer or company secretary as the case may be) of the Company or any of its associated companies. Neither the indemnity nor insurance cover provides cover in the event that a Director (or officer or company secretary as the case may be) is proved to have acted fraudulently or dishonestly.

The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors (or officer or company secretary as the case may be) on an ongoing basis.

Dividend

The Board recommends the payment of a final dividend of 9.0 US cents per ordinary share (2008: nil). If approved, the dividend will be paid on 18 May 2010 to shareholders on the register at the close of business on 23 April 2010. The Board decided not to pay an interim dividend in 2009. Shareholders may elect to receive their dividend in UK pounds sterling by completing a currency election form available from the Company's registrar.

Annual General Meeting

The Company's Annual General Meeting will be held at 12.15pm on Friday 14 May 2010 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. Details of the meeting venue and the resolutions to be proposed together with explanatory notes, are set out in a separate Notice of Meeting which accompanies this Annual Report and Accounts.

A summary of the business carried out at the AGM will be published on the Company's website (www.kazakhmys.com).

Share capital

Further to the final phase of implementation of the Companies Act 2006, the requirement for companies to have an authorised share capital has been abolished. The Company reflected this change in legislation in its Articles of Association which were approved by shareholders at the 2009 AGM. Therefore, as at 31 December 2009, the Company did not have an authorised share capital and its issued share capital was 535,240,338 ordinary shares of 20 pence, each credited as fully paid. Further details of the Company's issued share capital are shown in note 25 on page 131.

The Company's shares are listed on the London and Kazakhstan stock exchanges.

Major shareholdings

As at 29 March 2010, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority of the following interests of 3% or more in its ordinary share capital:

Name of holder	Number of ordinary shares of 20 pence each held	Percentage of total ordinary share capital held as at 29 March 2010
Cuprum Holding B.V.	135,944,325	25.4
State Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan	80,286,050	15.0
Tobermory Holding Europe B.V.	50,735,450	9.5
Harper Finance Limited	29,706,901	5.5
Perry Partners S.A.	21,503,813	4.0

1 Vladimir Kim holds a 100% interest in Cuprum Holding B.V., Tobermory Holding Europe B.V. and Perry Partners S.A.

2 Oleg Novachuk holds a 100% interest in Harper Finance Limited.

Relationship agreement

To regulate the ongoing relationship between the Company and Vladimir Kim, a relationship agreement was entered into in September 2005. The principal purpose of the relationship agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole.

Political and charitable donations

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year. The Group made charitable donations of \$5.8 million during the year (2008: \$5.3 million). Further details of payments for charitable and community purposes made during the year are given on pages 56 and 57.

Suppliers

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

The average creditor payment period for the year ended 31 December 2009 for the Company was 3.8 days (2008: 6.0 days).

Market value of land and buildings

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

Policy on derivatives and financial instruments

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign currency, credit, commodity, price, liquidity and interest rate risks can be found in note 33 commencing on page 136.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for the counterparties upon a change of control of the Company.

The terms of a \$2.1 billion pre-export finance debt facility (the 'Facility') dated 29 February 2008 between the Company and the financial institutions named in the Facility provide that if any person (excluding Vladimir Kim or Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the Facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the Facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the Facility. If no alternative basis has been agreed during such period then the lenders may cancel the commitments of the lenders to lend the Facility and declare all outstanding amounts due and payable.

Going concern

The Group's business activities, together with the factors likely to impact the future growth and operating performance are set out in the Business Review on pages 2 to 57. The financial position of the Group, its cash flows, financial risk management policies and available debt facilities are described in the Financial Review on pages 36 to 47. In addition, note 33 commencing on page 136 sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to commodity prices, interest rates and foreign exchange.

With the recovery in the commodity prices throughout 2009 and into 2010 and the disposal of 50% of Ekibastuz GRES-1, the Group has a strong cash position with available funds of \$903 million at 31 December 2009 and reduced debt levels of \$1,650 million. The Directors have considered the Group's financial position, the available credit facilities, and the outlook for the Group's products, along with accessibility to customers in the key markets of China and Europe, and believe there is 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 of accounting in preparing the consolidated financial statements.

Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable English law concerning companies (the Companies Acts 1985 and 2006). This summary is qualified in its entirety by reference to the Company's Articles of Association and the Companies Acts.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares respectively.

At the 2010 AGM a special resolution will be put to shareholders proposing to adopt new Articles of Association primarily in order to reflect the final phase of implementation of the Companies Act 2006 as well as the implementation of the Companies (Shareholder Rights) Regulations 2009. If adopted, the changes will be reflected in the summary of the Articles of Association which will appear in the 2010 Annual Report and Accounts.

Rights attaching to shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association. The Articles of Association

may be changed with the agreement of shareholders. A shareholder whose name appears on the register can choose whether his shares are evidenced by share certificates or held in electronic form in CREST (the electronic settlement system in the UK).

Voting rights

Members may attend any general meeting of the Company. On a show of hands every member (or his representative) who is present in person or by proxy has one vote on each resolution and on a poll every member (or his representative) who is present in person or by proxy shall have one vote on each resolution for each share of which he is the holder.

At any general meeting a resolution put to a vote of the meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is duly demanded. Subject to the provisions of Companies Acts, a poll may be demanded by the chairman of the meeting or by at least five members present in person or by proxy and entitled to vote at the meeting or a member or members present in person or by proxy representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting or a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right. As a result of changes introduced by the Companies Act 2006 to allow multiple proxies appointed by a single member to vote on a show of hands, resulting in the potential for a vote on a show of hands to be unrepresentative of the wishes of the meeting of the Company, all substantive resolutions at general meetings will normally be put to a poll vote. Any form of proxy sent by the Company to shareholders in relation to any general meeting must be received whether in written form or electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Board can declare and pay interim dividends. The Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) of the amounts and on the dates and for the periods it decides provided the distributable profits of the Company justify such payment. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividends as well as on shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears.

If a dividend has not been claimed for 12 years after the date such dividend became due for payment, it may be invested or otherwise made use of by the Board for the benefit of the Company.

Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid (or renunciation of a renounceable letter of allotment), provided that refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer unless (i) it is in respect of only one class of shares, (ii) it is in favour of a single transferee or not more than four joint transferees, (iii) the instrument of transfer is lodged, duly stamped (if so required) and delivered for registration to the office or such other place as the Board may determine accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing to make the transfer.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

Directors' Report: Governance

OTHER STATUTORY INFORMATION CONTINUED

The Board may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register to shareholders. The Board cannot suspend the registration of transfers of any uncertificated shares without gaining consent from CREST.

Winding up

In the event the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie all or any part of the assets of the Company and he can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may also vest the whole or any part of the assets in trustees on such trusts for the benefit of the members, but no member shall be compelled to accept any assets on which there is a liability.

Variation of rights

If at any time the share capital of the Company is divided into shares of different classes, the rights attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or upon the adoption of a resolution passed at a separate general meeting of the holders of shares of that class.

The rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking equally with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Company's Articles of Association.

Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and Articles of Association.

Further to a resolution passed at the 2009 AGM, the maximum number of Directors is 12.

Notification of the acquisition or disposal of major shareholdings

Rule 5 of the Disclosures and Transparency Rules requires disclosure to the issuer by (a) holders of shares with voting rights attached, (b) those entitled to exercise voting rights, and (c) those holding financial instruments which result in a right to acquire shares with voting rights already in issue, when their interests reach, exceed or fall below 3%, and every percentage point above 3%.

Audit information

As required by Section 418 of the Companies Act 2006, each of the Directors has approved this report and confirmed that so far as he is aware, there is no relevant audit information (being information needed by the auditors in connection with preparing their audit report), of which the Company's auditors are unaware, and he has taken all steps that he ought to have reasonably taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be re-appointed. Ernst & Young LLP have indicated their willingness to continue in office and ordinary resolutions re-appointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2010 AGM.

Responsibilities of the Directors for the preparation of the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the European Union to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for ensuring that the Company and the Group keep proper accounting records that disclose with reasonable accuracy the financial position of the Company and of the Group and that enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, and have adopted a control framework for application across the Group.

Responsibility statement

Each Director confirms to the best of his knowledge that:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
- the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors' Report comprising pages 2 to 82, and including the sections of the Annual Report and Accounts referred to in these pages, has been approved by the Board and signed on its behalf by:

Robert Welch
Company Secretary
29 March 2010

Registered Office
6th Floor, Cardinal Place
100 Victoria Street
London
SW1E 5JL

Registered in England and Wales No. 5180783

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KAZAKHMY'S PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Kazakhmys PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Cash Flows and the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 46. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 82, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 82, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Ken Williamson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
29 March 2010





FINANCIAL STATEMENTS

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INSTALLATION OF AIR PRECIPITATORS AT EKIBASTUZ GRES-1 POWER STATION

Electrostatic precipitators are being installed at Ekibastuz GRES-1 which will not only reduce emissions, but will also improve efficiency.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

\$ million (unless otherwise stated)	Notes	2009	2008
CONTINUING OPERATIONS			
Revenues	6(b)	2,404	3,276
Cost of sales	7(a)	(1,144)	(1,620)
Gross profit		1,260	1,656
Selling and distribution expenses	7(b)	(52)	(80)
Administrative expenses	7(c)	(402)	(407)
Other operating income	7(d)	28	192
Other operating expenses	7(e)	(159)	(48)
Impairment losses	8	(126)	(381)
Operating profit		549	932
Share of profits from associate	19	223	255
Profit before finance items and taxation		772	1,187
Analysed as:			
Profit before finance items and taxation excluding special items		860	1,553
Special items		(88)	(366)
Finance income	12	479	113
Finance costs	12	(223)	(156)
Profit before taxation		1,028	1,144
Income tax expense	13(a)	(261)	(324)
Profit for the year from continuing operations		767	820
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	5	(214)	90
Profit for the year		553	910
Attributable to:			
Owners of the Company		554	909
Minority interests		(1)	1
		553	910
Earnings per share attributable to owners of the Company – basic and diluted			
From continuing operations (\$)	14(a)	1.44	1.67
From discontinued operations (\$)	14(a)	(0.40)	0.18
		1.04	1.85
EPS based on Underlying Profit – basic and diluted			
From continuing operations (\$)	14(b)	1.02	2.31
From discontinued operations (\$)	14(b)	0.11	(0.04)
		1.13	2.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

\$ million	Notes	2009	2008
Profit for the year		553	910
Other comprehensive income/(loss) for the year after tax:			
Unrealised gain on available for sale investment	25(c)	–	1,041
Exchange differences on retranslation of foreign operations		(1,134)	(36)
Losses/(gains) on cash flow hedges taken to equity		138	(142)
(Losses)/gains on cash flow hedges taken to income statement		(138)	143
Impairment of associate recognised against unrealised gain on available for sale investment in equity	19	–	(2,636)
Share of other comprehensive loss of associate	19	(315)	(6)
Other comprehensive loss for the year		(1,449)	(1,636)
Total comprehensive loss for the year		(896)	(726)
Attributable to:			
Owners of the Company		(889)	(732)
Minority interests		(7)	6
		(896)	(726)

CONSOLIDATED BALANCE SHEET

At 31 December 2009

\$ million	Notes	2009	2008
Assets			
Non-current assets			
Intangible assets	16	510	1,100
Tangible assets		2,022	3,601
Property, plant and equipment	17	1,774	3,326
Mining assets	18	248	275
Investment in associate	19	3,869	4,045
Other non-current investments		7	5
		6,408	8,751
Current assets			
Inventories	20	500	734
Prepayments and other current assets	21	325	238
Income taxes reclaimable		4	126
Trade and other receivables	22	150	233
Investments	23	58	32
Cash and cash equivalents	24	903	540
		1,940	1,903
Assets classified as held for sale	5	1,615	–
		3,555	1,903
TOTAL ASSETS		9,963	10,654
Equity and liabilities			
Share capital	25(a)	200	200
Share premium		2,648	2,648
Capital reserves	25(c)	(994)	449
Retained earnings		4,728	4,180
Equity attributable to owners of the Company		6,582	7,477
Minority interests		13	20
TOTAL EQUITY		6,595	7,497
Non-current liabilities			
Deferred tax liability	13(b)	99	266
Employee benefits	27	50	40
Provisions	28	95	198
Borrowings	29	1,132	1,702
		1,376	2,206
Current liabilities			
Provisions	28	17	107
Borrowings	29	518	498
Trade and other payables	30	935	306
Income taxes payable		60	36
Derivative financial instruments		–	2
Dividends payable		2	2
		1,532	951
Liabilities directly associated with assets classified as held for sale	5	460	–
		1,992	951
TOTAL LIABILITIES		3,368	3,157
TOTAL EQUITY AND LIABILITIES		9,963	10,654

These financial statements were approved by the Board of Directors on 29 March 2010.

Signed on behalf of the Board of Directors

Oleg Novachuk

Chief Executive

Matthew Hird

Chief Financial Officer

COMPANY BALANCE SHEET

At 31 December 2009

\$ million	Notes	2009	2008
Assets			
Non-current assets			
Investments	36	6,281	6,298
		6,281	6,298
Current assets			
Prepayments and other current assets		4	8
Income taxes reclaimable		–	23
Trade and other receivables	37	102	22
Cash and cash equivalents		39	137
		145	190
TOTAL ASSETS		6,426	6,488
Equity and liabilities			
Share capital	25(a)	200	200
Share premium		2,648	2,648
Capital reserves	38	785	785
Retained earnings		1,123	(754)
Equity attributable to owners of the Company		4,756	2,879
Current liabilities			
Intercompany borrowings	39	1,666	3,546
Trade and other payables	40	4	63
TOTAL LIABILITIES		1,670	3,609
TOTAL EQUITY AND LIABILITIES		6,426	6,488

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

\$ million	Notes	2009	2008
Cash flows from operating activities			
Cash inflow from operations before interest, income taxes and dividends from associate	31	943	1,752
Interest paid		(63)	(70)
Income taxes paid		(144)	(621)
Dividends from associate		84	38
Net cash inflow from operating activities		820	1,099
Cash flows from investing activities			
Interest received		10	28
Proceeds from disposal of property, plant and equipment		14	17
Purchase of intangible assets	16	(6)	(12)
Purchase of property, plant and equipment	17	(327)	(654)
Investments in mining assets	18	(95)	(28)
Licence payments for subsoil contracts		(12)	(3)
Proceeds from disposal of non-current investments		–	14
Acquisition of non-current investments		(2)	(2)
Investment in short-term bank deposits (net)		(31)	25
Proceeds received in advance from disposal of share in subsidiary		681	–
Acquisition of associate		–	(918)
Payment of deferred consideration arising from business acquisition		(83)	(5)
Advanced payment of deferred consideration arising from business acquisition		(102)	–
Acquisition of subsidiaries (net of cash acquired)		–	(993)
Net cash flows from/(used in) investing activities		47	(2,531)
Cash flows from financing activities			
Purchase of own shares		(7)	–
Purchase of Company's issued share capital		–	(121)
Proceeds from borrowings – net of arrangement fees paid of \$3 million (2008: \$26 million)		253	2,122
Repayment of borrowings		(649)	(268)
Dividends paid by the Company		–	(200)
Net cash flows (used in)/from financing activities		(403)	1,533
Net increase in cash and cash equivalents		464	101
Cash and cash equivalents at the beginning of the year		540	439
Effect of exchange rate changes on cash and cash equivalents		(59)	–
Cash and cash equivalents at the end of the year	32	945	540

The consolidated statement of cash flows includes cash flows from both continuing and discontinued operations.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December 2009

\$ million	Notes	2009	2008
Cash flow from operating activities			
Profit/(loss) before taxation		1,876	(720)
Interest income		(1)	(3)
Interest expense		–	62
Impairment loss	36	39	991
Dividend income		(1,930)	(322)
Unrealised foreign exchange loss		9	–
Decrease in inventories		–	16
Decrease in prepayments and other current assets		4	5
(Increase)/decrease in trade and other receivables		(80)	86
Decrease in trade and other payables		(59)	(140)
Income taxes received/(paid)		15	(29)
Dividends received		1,930	256
Net cash inflow from operating activities		1,803	202
Cash flows from investing activities			
Interest received		1	5
Capital contributions into subsidiary undertakings	36	(22)	(2,310)
Net cash flows used in investing activities		(21)	(2,305)
Cash flows from financing activities			
Purchase of Company's issued share capital		–	(121)
(Payments of)/proceeds from intercompany borrowings		(1,880)	2,427
Dividends paid		–	(200)
Net cash flows (used in)/from financing activities		(1,880)	2,106
Net (decrease)/increase in cash and cash equivalents		(98)	3
Cash and cash equivalents at the beginning of year		137	134
Cash and cash equivalents at the end of year	41	39	137

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

\$ million	Notes	Attributable to owners of the Company					Minority interests	Total equity
		Share capital	Share premium	Capital reserves ¹	Retained earnings	Total		
At 1 January 2008		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 investment		–	–	1,041	–	1,041	–	1,041
Impairment of associate recognised against unrealised gain on available for sale investment in equity	19	–	–	(2,636)	–	(2,636)	–	(2,636)
Share of (losses)/gains of associate recognised in equity	19	–	–	(11)	–	(11)	5	(6)
Gains on cash flow hedges taken to equity		–	–	(142)	–	(142)	–	(142)
Gains on cash flow hedges included in income statement	7(d)	–	–	143	–	143	–	143
Exchange differences on retranslation of foreign operations		–	–	(36)	–	(36)	–	(36)
Total comprehensive (loss)/income for the year		–	–	(1,641)	909	(732)	6	(726)
Purchase of Company's issued share capital	25(a)	(2)	–	2	(121)	(121)	–	(121)
Shares issued pursuant to acquisition of interest in associate (net of issue costs of \$10 million)	25(a)	32	2,078	–	–	2,110	–	2,110
Share-based payment	26	–	–	–	1	1	–	1
Equity dividends paid by the Company	15(a)	–	–	–	(200)	(200)	–	(200)
At 31 December 2008		200	2,648	449	4,180	7,477	20	7,497
Profit for the year		–	–	–	554	554	(1)	553
Share of (losses)/gains of associate recognised in equity	19	–	–	(310)	–	(310)	(5)	(315)
Losses on cash flow hedges taken to equity		–	–	138	–	138	–	138
Losses on cash flow hedges included in income statement	7(e)	–	–	(138)	–	(138)	–	(138)
Exchange differences on retranslation of foreign operations		–	–	(1,133)	–	(1,133)	(1)	(1,134)
Total comprehensive (loss)/income for the year		–	–	(1,443)	554	(889)	(7)	(896)
Share-based payment	26	–	–	–	1	1	–	1
Own shares acquired	25(b)	–	–	–	(7)	(7)	–	(7)
At 31 December 2009		200	2,648	(994)	4,728	6,582	13	6,595

¹ Refer to note 25(c) for an analysis of 'Capital reserves'.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

\$ million	Notes	Share capital	Share premium	Capital reserves ¹	Accumulated losses	Total equity
At 1 January 2008		170	570	783	286	1,809
Loss for the year		–	–	–	(720)	(720)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss for the year		–	–	–	(720)	(720)
Purchase of Company's issued share capital	25(a)	(2)	–	2	(121)	(121)
Shares issued pursuant to acquisition of interest in associate (net of issue costs of \$10 million)	25(a)	32	2,078	–	–	2,110
Share-based payment	26	–	–	–	1	1
Equity dividends paid by the Company	15(a)	–	–	–	(200)	(200)
At 31 December 2008		200	2,648	785	(754)	2,879
Profit for the year		–	–	–	1,876	1,876
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	1,876	1,876
Share-based payment	26	–	–	–	1	1
At 31 December 2009		200	2,648	785	1,123	4,756

¹ Refer to note 38 for an analysis of 'Capital reserves'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2009

1. CORPORATE INFORMATION

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 divisions as set out below.

The Group operates in the natural resources industry. The Group's operations are primarily conducted through the Company's principal division, Kazakhmys Copper, whose major business is the mining and processing of copper ore into copper cathodes and copper wire, and the refining and sale of precious metals and other by-products of its copper mining process.

The Group operates in a number of divisions within the natural resources sector, the principal activities of which are as follows as at 31 December 2009:

Operating division	Principal activity	Primary country of operations
Kazakhmys Copper	Mining and processing copper	Kazakhstan
MKM	Copper processing	Germany
Kazakhmys Power	Power generation	Kazakhstan
Kazakhmys Gold	Mining and processing gold	Kazakhstan
Kazakhmys Petroleum	Oil and gas exploration	Kazakhstan

Kazakhmys Power and MKM are included as discontinued operations within the financial statements (see note 5).

The legal names of the constituent companies within the above divisions are shown in note 44 on page 149.

2. BASIS OF PREPARATION

The financial statements set out on pages 86 to 150 have been prepared using consistent accounting policies. The Company has taken the exemption under section 408 of the Companies Act 2006 and has not published the Company's income statement and related notes.

(a) Going concern

The Group's business activities, together with the factors likely to impact its future growth and operating performance are set out in the Business Review on pages 2 to 57. The financial position of the Group, its cash flows, financial risk management policies and available debt facilities are described in the Financial Review on pages 36 to 47. In addition, note 33 commencing on page 136 sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to commodity prices, interest rates and foreign exchange.

With the recovery in the commodity prices throughout 2009 and into early 2010 and the disposal of 50% of Ekibastuz GRES-1, the Group has a strong cash position with available funds of \$903 million at 31 December 2009 and reduced debt levels of \$1,650 million. The Directors have considered the Group's financial position, the available credit facilities, the outlook for the Group's products, along with accessibility to customers in the key markets of China and Europe, and believe there is 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 of accounting in preparing the consolidated financial statements.

(b) Basis of accounting

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

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2009 and the Group's financial performance for the year ended 31 December 2009.

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.

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

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

Refer to note 44 for a list of the Company's significant subsidiaries.

(d) 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 Act 2006.

(e) Adoption of standards and interpretations

In preparing the consolidated financial statements, the Group has applied the following standards and interpretations before or on their effective dates:

- Amendment to IFRS 2 'Group Cash-settled Share-based Payment Arrangements.' The Group adopted the amendment to IFRS 2 on 1 January 2009. The amendment to IFRS 2 has three elements: (i) the definition of share based transactions and arrangements has been amended, (ii) the scope of IFRS 2 has been amended, and (iii) guidance on the accounting for Group cash-settled share-based payment transactions has been provided. Adoption of the amendment did not have a significant effect on the financial position or performance of the Group;
- IFRS 7 'Financial Instruments: Disclosures.' The amended standard, effective from 1 January 2009, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy by class, for all financial instruments recognised at fair value. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures have not been presented as the value of financial instruments held at fair value is not material. The liquidity risk disclosures are not

significantly impacted by the amendments and are presented in Note 33;

- IFRS 8 replaced IAS 14 'Segment Reporting' with effect from 1 January 2009. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 6, including the related revised comparative information, where applicable; and
- The Group adopted IFRS 1 'Presentation of financial statements' with effect from 1 January 2009. Adoption of the standard did not have a significant effect on the financial position or performance of the Group.

(f) New standards and interpretations not yet adopted

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

- IFRS 3 'Business combinations (Revised)' which is effective for annual periods beginning on or after 1 July 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results;
- IAS 27 'Consolidated and separate financial statements (Revised)' which is effective for annual periods beginning on or after 1 July 2009. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary;
- IAS 39 'Financial instruments: recognition and measurement – eligible hedged items.' These amendments to IAS 39 were issued in July 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group;
- Amendments to IAS 39 and IFRS 7 – 'Reclassification of Financial Instruments' which is effective for annual periods beginning on or after 1 July 2009. The amendment permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available for sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group;
- IFRIC 17 'Distributions of Non-cash Assets to Owners', which is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 clarifies the terms as to the recognition of dividends payable and their measurement for non-cash items. This interpretation is not expected to have any effect on the Group as it generally does not distribute any non-cash assets to shareholders;

- Improvements to IFRSs. The IASB's improvements project is an annual project that provides a mechanism for making non-urgent but necessary amendments to IFRSs. There are a number of amendments to standards following the 2008 improvements project which may result in consequential changes to accounting policies and other note disclosures. The Group does not expect the impact of any changes to the consolidated financial statements arising from this project to be significant.

These standards and interpretations will be adopted by the Group on the date that they become effective. The Directors do not anticipate, in light of the circumstances prevailing at the date of approval of this Annual Report, that the adoption of these standards and interpretations in future periods will have a material impact on the reported income or net assets of the Group in the period of initial application although the manner in which certain information is presented in the consolidated financial statements may change.

(g) Change in accounting policies

There have been no changes to accounting policies during the year, except for the adoption of new standards and interpretations as disclosed in note 2(e).

(h) Significant accounting judgements and estimates

(i) Judgements

Determining many of the amounts included in the consolidated financial statements involves the use of judgements. These judgements are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. The Directors believe that the following judgements, apart from those involving estimates, are likely to have the most significant effect on the amounts recognised in the consolidated financial statements.

Equity accounting

At 31 December 2009, the Group owned 26.0% of ENRC PLC, a Kazakhstan-based mining company listed on the London Stock Exchange. The investment has been recorded as an associate and accounted for under the equity method in accordance with IAS 28 'Investments in Associates.' IAS 28 states that there is a rebuttable presumption that significant influence exists where an investor holds more than 20% of the voting power of the investee. Although Kazakhmys does not have representation on the board of ENRC, the Directors believe that the Group has the ability to exercise significant influence by virtue of its substantial shareholding, whereby the Group owns in excess of 25% of the issued share capital of ENRC and is the single largest shareholder.

This interest confers the Group with certain additional rights and influence under the Companies Act 2006 (CA06) which allows the Group to block special resolutions proposed by ENRC at general meetings. Consequentially, through the provisions of the CA06, the Group is able to participate in policy making processes of ENRC, including participation about distributions such as share buy-backs, which form part of ENRC's capital management strategy.

The Directors are of the view that the Group has influence over the acquisition strategy of ENRC by having the ability in essence to block related party transactions, which ENRC have a history of making, where these transactions are over and above the de-minimis exemption in the Listing Rules.

Furthermore, the frequency and nature of meetings between the two companies has changed substantially since the Group increased its shareholding above 25%, with matters such as acquisition strategy and the exchange of technical information regarding power generation, taxation and mining safety being discussed.

In the Directors' judgement, the Group has the ability to exercise significant influence over ENRC. The Directors therefore believe that it remains appropriate for the Group to equity account for its interest in ENRC in accordance with IAS 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION CONTINUED

Useful economic lives and impairment indicators

Tangible and intangible assets are depreciated over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and any changes could affect prospective depreciation rates and hence, asset carrying values. Management also reviews the carrying value of the Group's tangible and intangible assets to determine whether there is any indication of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen can require considerable judgement taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. The carrying value of the assets of a cash generating unit is compared with the recoverable amount of those assets, that is, the higher of net realisable value and value in use, which is determined on the basis of discounted future cash flows. This involves management estimates on commodity prices, market demand and supply, economic and regulatory climates, long-term mine plans and other factors. Any subsequent changes to cash flows due to changes in the above mentioned factors could impact the carrying value of the assets.

The global economic downturn has resulted in management undertaking a series of impairment tests. These tests have resulted in the following impairment charges being recognised in the consolidated income statement:

- Kazakhmys Gold – an impairment charge has been recognised following a decision not to proceed with the Akjilga development project in Tajikistan in the foreseeable future as more economically attractive projects exist within the Group (see note 8);
- MKM – an impairment charge has been recognised to write down the carrying value of MKM to its fair value in light of a number of impairment indications arising during the second half of 2009 following the economic weakness in Europe, MKM's core marketplace (see note 5(a)); and
- Kazakhmys Power – an impairment charge has been recognised to write down the carrying value of Maikuben West to its recoverable amount following the decision to dispose of 50% of the Ekibastuz GRES-1 power station to Samruk (see note 5(b)).

Allocation of excess purchase consideration

Business combinations require judgement and estimates to be made at the date of acquisition in relation to determining asset and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities.

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

In respect of non-mining company acquisitions, such as the acquisition of the Ekibastuz GRES-1 power station in May 2008, the purchase consideration is allocated to the fair value of specific assets and liabilities acquired, and any excess purchase consideration is then recognised as goodwill, which is tested annually for impairment. Changes in assumptions over future tariff prices, market demand and supply, and economic and regulatory climates could impact on the carrying value of assets, including the goodwill.

Assets held for sale and discontinued operations

Following the announcement on 10 December 2009 that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a 100% owned

subsidiary within the Kazakhmys Power Division to Samruk, for consideration of \$681 million, the Directors have classified Ekibastuz GRES-1 LLP as an asset held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. The transaction completed in February 2010 and the Group has retained a non-controlling interest of 50% in the entity which shall be accounted for as a joint venture after the date of completion.

Furthermore, the Directors have decided to dispose of the Maikuben West coal mine (also within Kazakhmys Power Division) following a change in the long-term strategy of the coal mine as a result of the sale of 50% of the Ekibastuz GRES-1 power station to Samruk. This business has therefore been classified as an asset held for sale at the balance sheet date, and correspondingly as part of discontinued operations in the consolidated income statement.

Consequently, the businesses within the Kazakhmys Power Division are shown as discontinued operations and assets held for sale. The Directors consider that the businesses within the Kazakhmys Power Division meet the criteria to be classified as held for sale at the balance sheet date.

Additionally, the Directors have decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. This business has therefore been classified as an asset held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. A write down has been recognised as MKM's recoverable amount is re-measured to fair value less costs to sell. The Directors consider that MKM meets the criteria to be classified as held for sale at the balance sheet date, including, in particular, that a disposal is considered to be highly probable in 2010.

For more details on discontinued operations, refer to note 5.

Determination of mineral extraction tax

The mineral extraction tax (MET) was introduced in the 2009 Tax Code that came into force on 1 January 2009 in order to offset the reduction in corporate income tax rates within Kazakhstan. MET legislation has evolved during the year to take into account the economic environment within Kazakhstan such that certain tax benefits might be provided to subsoil users whose mineral deposits are of low or no profitability. In determining the MET expense for each subsoil contract, judgement is required as to the full year profitability of each subsoil contract taking into account prevailing and future commodity prices as well as the underlying cost base. This profitability assessment impacts on the MET rates applicable to each subsoil contract and consequently the levels of MET payable. Furthermore, there is also considerable uncertainty within Kazakhstan as to the nature of the tax benefits that might be available, if at all, to subsoil users whose mineral deposits are of low or no profitability. In the determination of MET payable, the Directors believe the Group's judgements are reasonable and in compliance with Kazakhstan legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation at the time of a future tax audit.

Determination of excess profits taxation

Prior to 1 January 2009, excess profits tax (EPT) was imposed on the Group in addition to Kazakhstan corporate income tax on certain profitable subsoil contracts. EPT was based on an approximation of the internal rate of return (IRR) with EPT being applicable only where the cumulative IRR exceeded 20%. In determining the IRR for each subsoil contract, there was considerable judgement involved as to the allocation of profit amongst the Group's subsoil contracts, the nature of deductions for capital expenditure and the timing of those deductions. For the determination of EPT payable prior to 1 January 2009, the Directors believe the Group's judgements are reasonable and in compliance with Kazakhstan legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation at the time of a future tax audit.

Following the introduction of the 2009 Tax Code on 1 January 2009, management has interpreted the new tax legislation and believe that EPT is not applicable to the Group's operations during 2009. This view is supported by discussions and correspondence with the governmental authorities. The Directors believe the Group's judgements at the current time are reasonable and in compliance with Kazakhstan tax legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation at the time of a future tax audit.

Accounting for potential transfer pricing liabilities

For the years ended 31 December 2006 to 2009, Kazakhmys LLC sold its exported products to Kazakhmys PLC (2006 and 2007) and Kazakhmys Sales Ltd (2008 and 2009), a wholly owned subsidiary of Kazakhmys PLC, under an exclusive purchasing agreement at the prevailing LME or LBMA prices, with a discount to LME or LBMA prices permitted by Kazakhstan transfer pricing legislation and reflecting the commercial and credit risks borne by the UK operations. Management believe that these prices, and accompanying discount where applicable, reflect the balance of commercial and credit risks shared between Kazakhmys LLC and the UK operations.

Management has recognised the nature of the transfer pricing legislation promulgated in Kazakhstan and the UK in determining any consequential tax liabilities in these jurisdictions resulting from the sale of exported products from Kazakhmys LLC to the UK operations for 2006 to 2009. The Directors believe the Group's judgements are reasonable and in compliance with UK and Kazakhstan transfer pricing legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation at the time of a future tax audit.

(ii) Estimation uncertainty

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

In particular, information about significant areas of estimation uncertainty made by the Directors in preparing the consolidated financial statements is shown below:

- Note 4 – Business acquisition. Assumptions and estimates are required when determining the fair value of the net assets and liabilities of the business acquired, including the timing of cash flows and selecting an appropriate discount rate;
- Note 5 – Discontinued operations. Assumptions and estimates are required when determining the fair value less costs to sell of assets held for sale;
- Notes 8 and 16 – Impairment losses. Notes 8 and 16 outline the significant assumptions made in performing impairment tests;
- Note 13 – Income taxes. Management make estimates in relation to the level of taxes payable which may then be audited by the tax authorities;
- Note 18 – Mining assets. Estimated recoverable reserves and resources are used to determine the depreciation of mining assets, in accounting for mine stripping costs and in performing impairment testing;
- Note 28 – Provisions. Estimates are made regarding the timing of future payments; and
- Note 34 – Commitments and contingencies. These require management to make estimates as to amounts payable and to determine the likelihood of cash outflows in the future.

(i) Comparative figures

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

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

The functional currencies of the Company and Kazakhmys Sales Ltd, which became the primary UK trading entity with effect from 1 January 2008, are the US dollar (\$) as the majority of the operating activities are conducted in US dollars. The functional currency of Kazakhmys LLC, Kazakhmys Power, Kazakhmys Gold and Kazakhmys Petroleum is the Kazakhstan tenge (KZT) and of MKM is the Euro (€). On consolidation, income statements of subsidiaries are translated into US dollars, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. Exchange differences on the retranslation are taken to a separate component of equity. Exchange differences on foreign currency borrowings financing those net investments are also dealt with in equity. All other exchange differences are charged or credited to the income statement in the year in which they arise. The following foreign exchange rates against the US dollar have been used in the preparation of the consolidated financial statements:

	31 December 2009	Average 2009	31 December 2008	Average 2008
Kazakhstan tenge	148.36	147.50	120.77	120.30
Euro	0.70	0.72	0.71	0.68
UK pounds sterling	0.63	0.64	0.69	0.54

Devaluation of the tenge

In February 2009, the National Bank of Kazakhstan announced that it would support the tenge within a range of 3%, at a lower level of 150 KZT/\$, resulting in a devaluation of the tenge of approximately 25%. The impact of the devaluation in the consolidated financial statements is as follows:

- net finance income includes a foreign exchange gain of \$336 million for continuing operations which primarily arises due to the retranslation of US dollar denominated monetary assets and liabilities within the Group's Kazakhstan subsidiaries which have a tenge functional currency. The loss for the year from discontinued operations includes a foreign exchange loss of \$53 million;
- the goodwill balance arising on the acquisition of Kazakhmys Power has been retranslated as at 31 December 2009 since the goodwill arises in respect of businesses acquired whose functional currencies are the tenge. This gives rise to a foreign exchange loss of \$109 million being recognised within equity and a corresponding reduction in the goodwill balance to \$443 million

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

as at 31 December 2009 prior to the goodwill being re-classified as an asset held for sale;

- a non-cash foreign exchange loss of \$1,060 million (which includes the \$109 million goodwill foreign exchange loss) has been recognised within equity. This is primarily due to the re-translation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the Kazakhstan tenge; and
- a reduction in the carrying value of the investment in associate of \$342 million as the Group has recognised its share of the foreign exchange loss recognised in equity by ENRC.

(b) Business combinations

On the acquisition of a subsidiary, the purchase method of accounting is applied whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair values at the date of acquisition.

The cost of the business combination is the aggregate of: (a) the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree; and (b) cost directly attributable to the business combination.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable net assets.

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognises any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Group recognises the resulting gain as negative goodwill in the income statement on the acquisition date.

(c) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

Other intangible assets, including mineral licences, which are acquired by the Group and which have finite useful lives, are stated at cost (which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use) less accumulated amortisation and impairment losses. The cost of intangible assets acquired in a business combination is its fair value which can be measured reliably as at the date of acquisition.

(iii) Amortisation

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

(d) Research and development

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

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

(e) Property, plant and equipment

(i) Initial measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost or 'deemed cost' of property, plant and equipment (hereafter referred to as 'cost') at 1 January 2002, the date of Kazakhmys LLC's transition to IFRS, was determined by reference to its depreciated replacement cost at that date in accordance with IFRS 1.

(ii) Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

Depreciation commences on the date the assets are used within the business. Freehold land is not depreciated.

The expected useful lives are as follows:

Buildings	15-40 years
Plant and equipment	4-25 years
Other	3-15 years

(iii) Construction in progress

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

Construction in progress is not depreciated.

(iv) Repairs and maintenance

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

(v) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is

intended to compensate. Where the grant relates to an asset, the fair value is credited to the cost of the asset and is released to the income statement over the expected useful life in a consistent manner with the depreciation method for the relevant asset.

(vi) Leasing and hire purchase commitments

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

(f) Mining assets

(i) Mineral properties

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

(ii) Mine development costs

Mine development costs are, upon commencement of production, depreciated using a unit of production method, which is the ratio of commodity production in the period to the estimated quantities of commercial reserves over the life of the mine (using proven developed reserves as determined by the local geological classification system) based on the estimated economically recoverable reserves to which they relate.

(iii) Mine stripping costs

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

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

(iv) Exploration assets

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

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

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

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

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

(g) Oil and gas assets

(i) Exploration, evaluation and production assets

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

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

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

(ii) Commercial reserves

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

(iii) Depletion and amortisation – discovery fields

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

(h) Impairment

The Group conducts annual internal assessments of the values of goodwill and capitalised exploration and evaluation expenditure. Values of mine properties and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised for the asset in prior years. Such reversals are recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

(i) Investment in associate

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.

Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its associate. The carrying value of the associate is reviewed on a regular basis and if an impairment in value has occurred, it is written off in the period in which those circumstances are identified. The Group's share of an associate's losses in excess of its interest in that associate is not recognised unless the Group has an obligation to fund such losses.

The Group discontinues its use of the equity method from the date on which it ceases to have the ability to exercise significant influence, and from that date, accounts for the investment in accordance with IAS 39 (with its initial cost being the carrying amount of the associate at that date), provided the investment does not then qualify as a subsidiary or joint venture.

The Group's income statement reflects the share of associate's results after tax and the Group's statement of changes in equity includes any other amounts attributable to the equity holder recognised by the associate in the statement of comprehensive income.

The carrying amount of an available for sale investment at the date it becomes an associate is considered to be its cost in applying the equity method. Consequently, no adjustment is made to reverse previous fair value adjustments. Dividend income continues to be recognised in the income statement up to the date the investment becomes an associate. Any gain recognised within other comprehensive income remains there until the associate is either impaired or disposed.

(j) Parent company's investments

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

(k) Inventories

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

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

(l) Trade and other receivables

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

(m) Cash and cash equivalents

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

(n) Assets held for sale

When an asset or disposal group's carrying value will be recovered principally through a sale transaction rather than through continuing use, it is classified as held for sale and stated at the lower of carrying value and fair value less costs to sell. No depreciation is charged in respect of non-current assets held for sale.

(o) Borrowings

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

(p) Employee benefits**(i) Long-term employee benefits**

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

MKM provides for part-time work for older employees. There are no long-term employee benefits provided in the United Kingdom.

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

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

(ii) Share-based payments

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

(iii) Own shares

Own equity instruments which are re-acquired (own shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

(iv) Trust activities

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

(v) Social programmes

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

(q) Provisions

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

discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(i) Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Any change in restoration costs or assumptions will be recognised as additions or charges to the corresponding asset and provision when they occur. For permanently closed sites, changes to estimated costs are recognised immediately in the income statement.

(ii) Payments for licences

In accordance with the terms of subsoil use contracts, provision is made for future licence payments when the Group has a present obligation to repay the costs of geological information provided for licensed deposits. The amount payable is discounted to its present value.

(iii) Other

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

(r) Revenue

Revenue represents the value of goods and services supplied to third parties during the year. Revenue is measured at the fair value of consideration receivable, and excludes any applicable sales tax. Mining royalties and mineral extraction taxes are included within cost of sales.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title and any insurance risk has passed to the customer and the goods have been delivered in accordance with the contractual delivery terms or when any services have been provided.

Almost all sales agreements for copper cathodes, copper rods and copper and zinc concentrate are provisionally priced, (i.e. the selling price is subject to final adjustment at the end of a quotation period, typically the average price either for the month or the month following delivery to the customer), based on the LME market price for the relevant quotation period stipulated in the contract. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of commodity at the provisional invoice price, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales are marked-to-market using forward prices, with adjustments (both gains and losses) being recorded in revenue in the consolidated income statement and in trade receivables in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(s) Finance income

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

(t) Finance costs

Finance costs comprise interest expense on borrowings which are not capitalised under the borrowing costs policy (see 3(u) below), the unwinding of interest cost on provisions and foreign exchange losses.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, commencement of construction or production of qualifying assets after 1 January 2008 (which are assets that necessarily take a substantial period of time to get ready for their intended use or sale), are capitalised as part of the cost of the respective assets, until such time as the assets are substantially ready for their intended use or sale. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2008.

All other borrowing costs are recognised in the income statement in the period in which they are incurred as part of finance costs. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(v) Income tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

(w) Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

(x) Financial instruments**(i) Recognition**

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

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

(ii) Measurement

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

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

The Group classifies investments depending upon the intent of management at the time of the purchase. Investments with fixed maturities and fixed or determinable payments that management has both the positive intent, and the ability to hold to maturity, are classified as held-to-maturity.

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

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

Assets held for trading are financial assets held for short-term trading purposes, and are measured at fair value through the income statement.

Available for sale investments are non-derivative financial assets and include investments that are held for sale, although there is no time frame in which management is required to sell them. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date, in which case they are included within current assets. These assets are recorded at fair value with the unrealised movements in fair value being recognised directly in equity until disposal or sale, at which time, those unrealised movements from prior periods are recognised in the income statement.

The Group uses derivative financial instruments such as commodity forward contracts to hedge risks associated with commodity price fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement, and is either included in the 'other operating income' or 'other operating expenses' line.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

(iii) Derecognition

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

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

(iv) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For available for sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement and increases in their fair value after impairment are recognised directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. BUSINESS ACQUISITION – EKIBASTUZ POWER PLANT AND MAIKUBEN WEST COAL MINE

On 29 May 2008 the Group acquired 100% of the Ekibastuz GRES-1 coal-fired power plant and Maikuben West coal mine in Kazakhstan. In accordance with IFRS 3 'Business combinations' based on further tax information received during 2009 in relation to the fair value of provisions at the acquisition date, the acquisition fair value table has been amended such that the fair value of provisions is \$26 million lower at \$21 million than that published in the 2008 Annual Report and Accounts. Accordingly, the restated net identifiable assets balance is \$696 million (previously: \$670 million) and goodwill arising on acquisition is \$568 million (previously: \$594 million). The final fair value table is shown below.

\$ million	Carrying value at acquisition date	Fair value adjustments at acquisition date	Fair value at acquisition date (provisional)	Adjustments	Fair value at acquisition date (final)
Assets					
Intangible assets	6	(5)	1	–	1
Property, plant and equipment	131	858	989	–	989
Mining assets	1	45	46	–	46
Inventories	17	1	18	–	18
Trade and other receivables	26	8	34	–	34
Cash and cash equivalents	102	–	102	–	102
Liabilities					
Deferred tax liability	(12)	(267)	(279)	–	(279)
Provisions	(14)	(33)	(47)	26	(21)
Borrowings	(159)	–	(159)	–	(159)
Trade and other payables	(35)	–	(35)	–	(35)
Net identifiable assets	63	607	670	26	696
Goodwill arising on acquisition			594	(26)	568
Total acquisition cost			1,264	–	1,264

As a requirement of IFRS, the goodwill balance has been re-translated as at 31 December 2009 since the goodwill arises in respect of businesses acquired whose functional currencies are the Kazakhstan tenge. This gives rise to a foreign exchange loss of \$109 million being recognised within equity and a corresponding reduction in the goodwill balance to \$443 million as at 31 December 2009 prior to the goodwill being impaired by \$16 million and reclassified as an asset held for sale (see note 5).

5. DISCONTINUED OPERATIONS

Discontinued operations consist of MKM (see note 5(a)) and the Kazakhmys Power Division (see note 5(b)) comprising the Ekibastuz GRES-1 coal-fired power plant and Maikuben West coal mine.

Following the announcement on 10 December 2009 that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk for a consideration of \$681 million, the Directors have classified Ekibastuz GRES-1 LLP as an asset held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. The transaction completed in February 2010 and the Group has retained a non-controlling interest of 50% in the entity which shall be accounted for as a joint venture after the date of completion.

The results from discontinued operations for the year as shown in the consolidated income statement are shown below:

\$ million	2009	2008
Revenues	1,276	1,875
Cost of sales	(1,050)	(1,777)
Operating costs	(100)	(115)
Impairment losses	(101)	(19)
Net finance costs	(87)	(22)
Impairment loss recognised on the re-measurement to fair value less costs to sell	(158)	–
Loss before tax from discontinued operations	(220)	(58)
Income taxes:		
Related to current year loss before taxation (current and deferred taxes)	(1)	148
Related to measurement to fair value less costs to sell (deferred tax)	7	–
(Loss)/profit for the year from discontinued operations	(214)	90
Analysed as:		
MKM	(130)	(41)
Kazakhmys Power	(84)	131

The MKM and Kazakhmys Power operations represent separate major business lines of the Group. As a result, these operations have been treated as discontinued operations at 31 December 2009. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax loss recognised on the re-measurement to fair value less costs to sell of the discontinued operations. Accordingly, the income and expenses of both MKM and Kazakhmys Power are reported separately from the continuing operations of the Group. The consolidated income statement for the prior year has been restated to conform to this style of presentation. The assets and liabilities of these divisions are also separately shown within the consolidated balance sheet as single line items within current assets and current liabilities. The 2008 consolidated balance sheet has not been restated.

The balance sheets of the discontinued operations are shown below:

\$ million	2009
Assets	
Intangible assets	444
Property, plant and equipment	801
Inventories	196
Prepayments and other current assets	3
Trade and other receivables	129
Cash and cash equivalents	42
Assets classified as held for sale	1,615
Liabilities	
Deferred tax liability	(110)
Employee benefits and provisions	(116)
Borrowings	(157)
Trade and other payables	(68)
Income taxes payable	(9)
Liabilities directly associated with assets classified as held for sale	(460)
Net assets directly associated with disposal group	1,155

The analysis of total assets and liabilities directly associated with the disposal groups are shown below:

\$ million	2009
Assets classified as held for sale:	
MKM	308
Kazakhmys Power	1,307
	1,615
Liabilities directly associated with assets classified as held for sale:	
MKM	(225)
Kazakhmys Power	(235)
	(460)

Net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

\$ million	2009	2008
Operating activities	(8)	63
Investing activities	(65)	(1,017)
Financing activities	89	987
Net cash inflow	16	33

(a) MKM

The Directors have decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. This business has therefore been classified as a disposal group with the assets and related liabilities being shown as held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. The Directors consider that MKM meets the criteria to be classified as held for sale at the balance sheet date for the following reasons:

- the Directors are committed to selling the MKM business and an active programme to sell the business was initiated in the second half of 2009;
- MKM is available for immediate sale and can be sold to a potential buyer in its current condition;
- expressions of interest have been received from prospective buyers with a view to making an offer for the business and certain of them have undertaken due diligence on MKM; and
- the Directors expect to sell MKM during 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. DISCONTINUED OPERATIONS CONTINUED

(i) Results of discontinued operation

The results of MKM for the year are presented below:

\$ million	2009	2008
Revenues	1,038	1,719
Cost of sales	(935)	(1,683)
Operating costs	(47)	(60)
Impairment losses	(32)	(17)
Net finance costs	(7)	(17)
Impairment loss recognised on the re-measurement to fair value less costs to sell	(158)	–
Loss before tax from discontinued operation	(141)	(58)
Income taxes related to current year loss before taxation	11	17
Loss for the year from discontinued operation	(130)	(41)

The re-measurement to fair value resulted in a loss of \$141 million before tax. In a light of the continuing economic weakness in Europe, MKM's core marketplace, a pre-tax impairment loss of \$29 million has been recognised to write down the carrying value of MKM to its recoverable amount on a value in use basis. A further impairment charge of \$158 million has been recognised to write down MKM to its expected fair value less costs to sell.

(ii) Balance sheet

The major classes of assets and liabilities of MKM classified as held for sale as at 31 December are as follows:

\$ million	2009
Assets	
Inventories	187
Trade and other receivables	121
Assets classified as held for sale	308
Liabilities	
Deferred tax liability	(5)
Employee benefits and provisions	(7)
Borrowings	(157)
Trade and other payables	(47)
Income taxes payable	(9)
Liabilities directly associated with assets classified as held for sale	(225)
Net assets directly associated with disposal group	83

Borrowings comprise a €170 million revolving trade finance facility with a syndicate of banks for a three year loan with a final maturity in June 2012. Interest is payable on the drawn balance at a rate of EURIBOR + 3.00%. The loan is secured over the inventories and receivables of MKM.

The amount of inventories held as security for MKM borrowings is \$187 million (2008: \$132 million).

The amount of trade receivables held as security for MKM borrowings is \$121 million (2008: \$97 million).

(iii) Cash flows

The net cash flows incurred by MKM are as follows:

\$ million	2009	2008
Operating activities	(28)	29
Investing activities	(6)	9
Financing activities	34	(32)
Net cash inflow	–	6

(b) Kazakhmys Power

(i) Results of discontinued operations

The Kazakhmys Power Division comprises two distinct businesses: the Ekibastuz GRES-1 power plant and the Maikuben West coal mine.

Ekibastuz GRES-1 power plant

- Following the announcement on 10 December 2009 that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk for a consideration of \$681 million, the Directors have classified Ekibastuz GRES-1 LLP as an asset held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. The transaction completed in February 2010 and the Group has retained a non-controlling interest of 50% in the entity which shall be accounted for as a joint venture after the date of completion.

Maikuben West coal mine

- Additionally the Directors have decided to dispose of the Maikuben West coal mine following a change in the long-term strategy of the coal mine as a result of the sale of 50% of the Ekibastuz GRES-1 power station to Samruk. The Directors considered that the Maikuben West coal mine meets the criteria to be classified as held for sale at the balance sheet date for the following reasons:
 - the Directors are committed to selling the Maikuben West coal mine and an active programme to sell the business was initiated in December 2009;
 - it is available for immediate sale and can be sold to a potential buyer in its current condition; and
 - the Directors have received expressions of interest from a potential buyer and expect to sell the mine during 2010.

The results of Kazakhmys Power for the year are presented below:

\$ million	2009	2008
Revenues	238	156
Cost of sales	(115)	(94)
Operating costs	(53)	(55)
Impairment losses	(69)	(2)
Net finance costs	(80)	(5)
Loss before tax from discontinued operation	(79)	–
Income taxes:		
Related to current year loss before taxation	(12)	131
Related to measurement to fair value less costs to sell (deferred tax)	7	–
(Loss)/profit for the year from discontinued operation	(84)	131

In light of the Directors' decision to dispose 50% of Ekibastuz GRES-1 LLP to Samruk, a pre-tax impairment loss of \$69 million has been recognised to write down the carrying value of Maikuben West coal mine to its recoverable amount on a value in use basis. No impairment losses have been recognised in relation to Ekibastuz GRES-1 LLP.

Following completion of the sale of 50% of Ekibastuz GRES-1 LLP in February 2010, a profit on disposal will be recognised in the Group's results for the year ended 31 December 2010. Even though the disposal was announced during 2009, and the cash proceeds of \$681 million were received by the Group in December 2009, since the disposal was conditional upon receiving shareholder approval and regulatory clearances, which were obtained in February 2010, the profit on disposal can only be recognised when all approvals are obtained and legal completion takes place in the 2010 financial year.

(ii) Balance sheet

The major classes of assets and liabilities of Kazakhmys Power classified as held for sale as at 31 December are as follows:

\$ million	2009
Assets	
Intangible assets	444
Property, plant and equipment	801
Inventories	9
Prepayments and other current assets	3
Trade and other receivables	8
Cash and cash equivalents	42
Assets classified as held for sale	1,307
Liabilities	
Deferred tax liability	(105)
Provisions	(109)
Trade and other payables	(21)
Liabilities directly associated with assets classified as held for sale	(235)
Net assets directly associated with disposal group	1,072

(iii) Cash flows

The net cash flows incurred by Kazakhmys Power are as follows:

\$ million	2009	2008
Operating activities	20	34
Investing activities	(59)	(1,026)
Financing activities	55	1,019
Net cash inflow	16	27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SEGMENT INFORMATION

For management purposes the Group is organised into five separately managed business units, as shown below, according to the nature of the products and services provided. Each of these business units represents an operating segment in accordance with IFRS 8 'Operating segments.' The operating segments are:

Kazakhmys Copper

The Kazakhmys Copper business is managed as one operating segment and comprises a Kazakhstan based company, Kazakhmys Corporation LLC, and a UK based company, Kazakhmys Sales Ltd. The principal activity of Kazakhmys Corporation LLC is the processing and sale of copper and other metals, while Kazakhmys Sales Ltd consists of a trading function responsible for the purchase of exported products from Kazakhmys Corporation LLC and subsequently applies an appropriate mark-up prior to onward sale to third parties.

The products produced by the Kazakhmys Copper business are subject to the same risks and returns, exhibit similar long-term financial performance and are sold through the same distribution channels. The business processes substantially all the copper ore it produces and utilises most of the copper concentrate it processes. The segment also 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 of the operating segment.

The UK trading function is a sales function on behalf of the Kazakhmys Copper business and consequently the assets and liabilities related to those trading operations, i.e. trade payables and trade receivables, are included within the Kazakhmys Copper operating segment.

MKM

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

As stated in note 5(a), the Directors have decided to dispose of MKM. As a result, at 31 December 2009, MKM has been classified as a disposal group held for sale and as a discontinued operation, and the comparative segment information has been restated accordingly.

Kazakhmys Power

Kazakhmys Power operates in Kazakhstan. The principal activity of the Kazakhmys Power operating segment, representing the Ekibastuz GRES-1 coal-fired power station and the Maikuben West coal mine, is the sale of electricity and coal 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 are primarily used within the Kazakhmys Copper business, and the level of external sales is comparatively insignificant.

As stated in note 5(a), following the announcement on 10 December 2009 that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk for a consideration of \$681 million, the Directors have classified Ekibastuz GRES-1 LLP as an asset held for sale at the balance sheet date, and correspondingly as a discontinued operation in the consolidated income statement. The transaction completed in February 2010 and the Group has retained a non-controlling interest of 50% in the entity which shall be accounted for as a joint venture after the date of completion. Furthermore, the Maikuben West coal mine has also been classified as an asset held for sale and a discontinued operation. The comparative segment information has been restated accordingly.

Kazakhmys Gold

The principal activities of the Kazakhmys Gold operating segment is 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. The Kazakhmys Gold business operates primarily in Kazakhstan and has a development project in Kyrgyzstan.

Kazakhmys Petroleum

The Kazakhmys Petroleum business holds a licence to conduct oil and gas exploration and development activity in the Eastern Akzhar Exploration Block in western Kazakhstan.

The key performance measure of the operating segments is EBITDA excluding 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.

The Group's Treasury department monitors finance income and finance costs at the Group level on a net basis rather than on a gross basis at an operating segment level.

The accounting policies adopted by each operating segment are consistent with those published in note 3. There are no inter-segment sales within the Group.

Segmental information is also provided in respect of revenues, by destination and by-product. Segmental information relating to employees is provided in note 9.

(a) Business segments
(i) Income statement information

\$ million	Year ended 31 December 2009								
	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Sales to external customers	2,357	1,038	238	47	–	–	3,680	1,276	2,404
Gross profit	1,241	103	123	19	–	–	1,486	226	1,260
Operating costs	(540)	(47)	(53)	(7)	(1)	(37)	(685)	(100)	(585)
Impairment losses	(102)	(190)	(69)	(24)	–	–	(385)	(259)	(126)
Segmental operating results	599	(134)	1	(12)	(1)	(37)	416	(133)	549
Share of profits from associate ³							223	–	223
Profit/(loss) before finance items and taxation							639	(133)	772
Net finance income/(costs)							169	(87)	256
Income tax expense							(255)	6	(261)
Profit/(loss) for the year							553	(214)	767

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Share of profits from associate is net of tax.

\$ million	Year ended 31 December 2008								
	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Sales to external customers	3,227	1,719	156	49	–	–	5,151	1,875	3,276
Gross profit	1,639	36	62	17	–	–	1,754	98	1,656
Operating costs	(304)	(60)	(55)	(7)	(1)	(31)	(458)	(115)	(343)
Impairment losses	(221)	(17)	(2)	(158)	(2)	–	(400)	(19)	(381)
Segmental operating results	1,114	(41)	5	(148)	(3)	(31)	896	(36)	932
Share of profits from associate ³							255	–	255
Profit/(loss) before finance items and taxation							1,151	(36)	1,187
Net finance costs							(65)	(22)	(43)
Income tax (expense)/recovery							(176)	148	(324)
Profit for the year							910	90	820

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Share of profits from associate is net of tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SEGMENT INFORMATION CONTINUED

(ii) Balance sheet information

At 31 December 2009									
\$ million	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Assets									
Tangible and intangible assets ³	1,894	–	1,245	93	527	18	3,777	1,245	2,532
Non-current investments	6	–	–	1	–	–	7	–	7
Intra Group investments	–	–	–	–	–	6,442	6,442	–	6,442
Operating assets ⁴	770	308	122	26	3	81	1,310	328	982
Current investments	58	–	–	–	–	–	58	–	58
Cash and cash equivalents	159	–	42	10	12	722	945	42	903
Assets classified as held for sale	–	–	–	–	–	–	–	(1,615)	1,615
Segment assets	2,887	308	1,409	130	542	7,263	12,539	–	12,539
Income taxes reclaimable							4	–	4
Investment in associate							3,869	–	3,869
Elimination							(6,449)	–	(6,449)
Total assets							9,963	–	9,963
Liabilities									
Employee benefits and provisions	135	7	109	2	25	–	278	116	162
Operating liabilities ⁵	227	47	21	4	3	710	1,012	68	944
Liabilities directly associated with the assets classified as held for sale	–	–	–	–	–	–	–	(460)	460
Segment liabilities	362	54	130	6	28	710	1,290	(276)	1,566
Deferred tax liability							209	110	99
Borrowings							1,807	157	1,650
Income taxes payable							69	9	60
Elimination							(7)	–	(7)
Total liabilities							3,368	–	3,368

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Tangible and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Copper, Kazakhmys Power and Kazakhmys Petroleum; (ii) Germany – MKM; and (iii) Kazakhmys Gold is split between \$18 million in Kazakhstan, \$68 million in Kyrgyzstan and \$7 million in Tajikistan.

⁴ Operating assets include inventories, prepayments and other current assets and trade and other receivables.

⁵ Operating liabilities include trade and other payables, derivative financial instruments and dividends payable by subsidiaries.

	At 31 December 2008						
\$ million	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total
Assets							
Tangible and intangible assets ¹	2,277	150	1,605	137	520	12	4,701
Non-current investments	4	1	–	–	–	–	5
Intra Group investments	–	–	–	–	–	6,249	6,249
Operating assets ²	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	1,658	173	526	6,462	12,734
Income taxes reclaimable							126
Investment in associate							4,045
Elimination							(6,251)
Total assets							10,654
Liabilities							
Employee benefits and provisions	122	7	188	2	26	–	345
Operating liabilities ³	240	28	24	2	3	15	312
Segment liabilities	362	35	212	4	29	15	657
Deferred tax liability							266
Borrowings							2,200
Income taxes payable							36
Elimination							(2)
Total liabilities							3,157

¹ Tangible and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Copper, Kazakhmys Power and Kazakhmys Petroleum; (ii) Germany – MKM; and (iii) Kazakhmys Gold is split between \$33 million in Kazakhstan, \$81 million in Kyrgyzstan and \$23 million in Tajikistan.

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

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

(iii) Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding special items¹

	Year ended 31 December 2009								
\$ million	Kazakhmys Copper	MKM ²	Kazakhmys Power ³	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{2,3}	Continuing operations
Operating profit/(loss)	599	(134)	1	(12)	(1)	(37)	416	(133)	549
Special items:									
Add: impairment of goodwill	–	–	16	–	–	–	16	16	–
Add: impairment of other intangible assets	–	2	–	–	–	–	2	2	–
Add: impairment of property, plant and equipment	50	133	17	–	–	–	200	150	50
Add: impairment of mining assets	–	–	36	23	–	–	59	36	23
Add: impairment of inventories	14	52	–	–	–	–	66	52	14
Add: loss on disposal of property, plant and equipment	1	–	–	–	–	–	1	–	1
Profit/(loss) before finance items and taxation excluding special items	664	53	70	11	(1)	(37)	760	123	637
Add: depreciation and depletion	200	23	50	10	–	2	285	73	212
Add: amortisation	2	–	–	–	–	–	2	–	2
Add: mineral extraction tax ⁴	161	–	–	3	–	–	164	–	164
Segment EBITDA excluding special items	1,027	76	120	24	(1)	(35)	1,211	196	1,015
Share of EBITDA of associate ⁵	–	–	–	–	–	423	423	–	423
Group EBITDA excluding special items	1,027	76	120	24	(1)	388	1,634	196	1,438

¹ EBITDA excluding special items is defined as profit before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax, 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 MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

³ Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

⁴ The mineral extraction tax has been excluded from the key financial indicator of EBITDA excluding special items to improve the comparability of the operational profitability of the Group between periods.

⁵ The share of EBITDA of the associate excludes the mineral extraction tax of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SEGMENT INFORMATION CONTINUED

							Year ended 31 December 2008		
\$ million	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Operating profit/(loss)	1,114	(41)	5	(148)	(3)	(31)	896	(36)	932
Special items:									
Add: impairment of goodwill	–	–	–	46	–	–	46	–	46
Add: impairment of property, plant and equipment	118	–	–	–	2	–	120	–	120
Add: impairment of mining assets	14	–	–	112	–	–	126	–	126
Add: provisions against inventory	73	15	–	–	–	–	88	15	73
Add: loss on disposal of property, plant and equipment	1	–	1	–	–	–	2	1	1
Profit/(loss) before finance items and taxation excluding special items	1,320	(26)	6	10	(1)	(31)	1,278	(20)	1,298
Add: depreciation and depletion	274	25	36	9	–	2	346	61	285
Add: amortisation	3	–	–	–	–	–	3	–	3
Segment EBITDA excluding special items	1,597	(1)	42	19	(1)	(29)	1,627	41	1,586
Share of EBITDA of associate	–	–	–	–	–	429	429	–	429
Group EBITDA excluding special items	1,597	(1)	42	19	(1)	400	2,056	41	2,015

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

(iv) Net liquid funds/(debt)

	At 31 December 2009								
\$ million	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Cash and cash equivalents	159	–	42	10	12	722	945	42	903
Current investments	58	–	–	–	–	–	58	–	58
Borrowings ³	(24)	(157)	(34)	(1)	–	(4,321)	(4,537)	(157)	(4,380)
Inter-segment borrowings ⁴	24	–	34	1	–	2,671	2,730	–	2,730
Net liquid funds/(debt)	217	(157)	42	10	12	(928)	(804)	(115)	(689)

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Borrowings of Corporate unallocated are presented net of capitalised arrangement fees of \$12 million.

⁴ Borrowings of Corporate unallocated include amounts borrowed from the Kazakhmys Copper segment and amounts lent to the Kazakhmys Power and Kazakhmys Gold segments.

\$ million	At 31 December 2008							
	Kazakhmys Copper	MKM	Kazakhmys Power	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	
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.

(v) Capital expenditure, depreciation and impairment losses

\$ million	Year ended 31 December 2009								
	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Property, plant and equipment	212	7	61	10	34	5	329	68	261
Mining assets	91	–	–	5	–	–	96	–	96
Intangible assets	7	2	–	–	–	3	12	2	10
Capital expenditure³	310	9	61	15	34	8	437	70	367
Depreciation and depletion	200	23	50	10	–	2	285	73	212
Amortisation	2	–	–	–	–	–	2	–	2
Depreciation, depletion and amortisation	202	23	50	10	–	2	287	73	214
Impairment losses	102	190	69	24	–	–	385	259	126

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Capital expenditure within the Kazakhmys Copper segment includes capitalised depreciation of \$2 million and \$1 million for property, plant and equipment and mining assets, respectively. Capital expenditure on intangible assets within the Kazakhmys Copper segment includes \$6 million capitalised in respect of contractual reimbursements to the Government for geological information and social commitments.

\$ million	Year ended 31 December 2008								
	Kazakhmys Copper	MKM ¹	Kazakhmys Power ²	Kazakhmys Gold	Kazakhmys Petroleum	Corporate unallocated	Total	Discontinued operations ^{1,2}	Continuing operations
Property, plant and equipment	559	10	38	8	42	–	657	48	609
Mining assets	24	–	–	5	–	–	29	–	29
Intangible assets	9	1	1	–	–	4	15	2	13
Capital expenditure³	592	11	39	13	42	4	701	50	651
Depreciation and depletion	274	25	36	9	–	2	346	61	285
Amortisation	3	–	–	–	–	–	3	–	3
Depreciation, depletion and amortisation	277	25	36	9	–	2	349	61	288
Impairment losses	221	17	2	158	2	–	400	19	381

¹ MKM has been classified as an asset held for sale and is included within discontinued operations (see 5(a)).

² Kazakhmys Power has been classified as an asset held for sale and is included within discontinued operations (see 5(b)).

³ Capital expenditure within the Kazakhmys Copper segment includes capitalised depreciation of \$3 million and \$1 million for property, plant and equipment and mining assets, respectively. Capital expenditure on intangible assets within the Kazakhmys Copper segment includes \$3 million capitalised in respect of contractual reimbursements to the Government for geological information and social commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SEGMENT INFORMATION CONTINUED

(b) Segmental information in respect of revenues

Revenues by product are as follows:

\$ million	2009	2008
Kazakhmys Copper		
Copper cathodes	1,563	2,272
Copper concentrate	107	19
Copper rods	41	314
Total copper products	1,711	2,605
Silver	251	251
Gold bullion	127	109
Zinc metal	19	88
Zinc metal in concentrate	127	61
Other by-products	52	51
Other revenue	70	62
	2,357	3,227
Kazakhmys Gold		
Gold doré	47	49
	47	49
Continuing operations	2,404	3,276
MKM		
Wire	438	783
Sheets and strips	366	571
Tubes and bars	208	337
Metal trade	26	28
	1,038	1,719
Kazakhmys Power		
Electricity generation	209	123
Coal	29	33
	238	156
Discontinued operations	1,276	1,875
Total revenues	3,680	5,151

Revenues by destination to third parties are as follows:

\$ million	2009	2008
Continuing operations		
Europe	1,138	1,971
China	1,005	1,006
Kazakhstan	254	217
Other	7	82
	2,404	3,276
Discontinued operations		
Europe	865	1,430
China	14	32
Kazakhstan	202	128
Other	195	285
	1,276	1,875
Total revenues	3,680	5,151

Year ended 31 December 2009

Three customers collectively under common control, within the Kazakhmys Copper segment represent 26% of total Group revenue for the year from continuing operations. The total revenue from these customers is \$616 million. The revenue from one of these customers individually represents 14% of total Group revenue from continuing operations.

Year ended 31 December 2008

Four customers, three of which are collectively under common control, within the Kazakhmys Copper segment represent 43% of total Group revenue for the year from continuing operations. The total revenue from these customers is \$1,394 million. The revenue from two of these customers individually represents 16% and 12% of total Group revenue from continuing operations.

7. COST OF SALES, SELLING AND DISTRIBUTION EXPENSES, ADMINISTRATIVE EXPENSES AND OPERATING INCOME/EXPENSES

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

(a) Cost of sales

\$ million	2009	2008
Raw materials	331	739
Employee salaries and payroll taxes	253	330
Depreciation, depletion and amortisation	186	255
Production overheads	164	242
Mineral extraction tax	164	–
Other taxes	41	31
Utilities	33	34
Change in work in progress and finished goods	(28)	(11)
Continuing operations	1,144	1,620
Discontinued operations	1,050	1,777
	2,194	3,397

(b) Selling and distribution expenses

\$ million	2009	2008
Transportation expenses	29	41
Port charges	15	25
Employee salaries and payroll taxes	3	3
Raw materials	1	2
Other	4	9
Continuing operations	52	80
Discontinued operations	54	72
	106	152

(c) Administrative expenses

\$ million	2009	2008
Employee salaries and payroll taxes	130	137
Legal and professional	36	29
Personal injury claims	33	19
Transportation	33	9
Social responsibility costs	31	70
Levies and charges	27	25
Depreciation and amortisation	26	24
Utilities	21	18
Medical and social support	19	22
Business travel	13	14
Supplies	7	15
Communication	6	6
Social contributions	2	3
Bank fees	1	1
Other	17	15
Continuing operations	402	407
Discontinued operations	54	55
	456	462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. COST OF SALES, SELLING AND DISTRIBUTION EXPENSES, ADMINISTRATIVE EXPENSES AND OPERATING INCOME/EXPENSES CONTINUED

(d) Other operating income

\$ million	2009	2008
Supplies	6	14
Sanatorium, medical and canteen	6	11
Lease income	6	6
Utilities	3	4
Railway services	2	–
Gain on forward copper hedging contracts	–	143
Gain on disposal of securities	–	5
Other	5	9
Continuing operations	28	192
Discontinued operations	9	13
	37	205

(e) Other operating expenses

\$ million	2009	2008
Loss on forward copper hedging contracts	129	–
Supplies	8	15
Sanatorium, medical and canteen	6	12
Utilities	4	4
Railway services	3	1
Depreciation of leased assets	2	2
Loss on disposal of property, plant and equipment	1	1
Other	6	13
Continuing operations	159	48
Discontinued operations	1	1
	160	49

8. IMPAIRMENT LOSSES

\$ million	2009	2008
Impairment of property, plant and equipment – notes 8(a), 8(f) and 8(h)	50	120
Impairment of mining assets – notes 8(b) and 8(g)	23	126
Provisions against inventories – notes 8(c) and 8(i)	21	73
Provisions against trade and other receivables – note 8(d)	23	10
Provisions against prepayments and other current assets	9	4
Impairment of goodwill – note 8(g)	–	46
Impairment of other intangible assets	–	2
Continuing operations	126	381
Discontinued operations – note 8(e)	259	19
	385	400

Year ended 31 December 2009

(a) Kazakhmys Copper property, plant and equipment

An impairment charge of \$50 million has been recognised in relation to property, plant and equipment within the Kazakhmys Copper Division primarily due to the curtailment of the Division's capital expenditure programme in the last 18 months and a focus on selected projects only.

(b) Kazakhmys Gold

An impairment charge of \$23 million has been recognised in relation to the Kazakhmys Gold Division following a decision not to proceed with the Akjilga development project in Tajikistan in the foreseeable future as more economically attractive projects exist within the Group.

(c) Kazakhmys Copper inventories

Provisions against inventories includes an amount of \$14 million within the Kazakhmys Copper Division in respect of certain by-products held in stock at the end of the year which have been written down to the lower of cost and net realisable value reflecting a fall in the market value of these by-products. The remaining balance included within provisions against inventories represents a general slow moving inventories provision.

(d) Kazakhmys Copper receivables

Provisions against trade and other receivables include an amount of \$23 million within the Kazakhmys Copper Division in respect of trust activities. Under the terms of its subsoil licences, Kazakhmys LLC is required to provide certain social services to the communities in which its mining activities operate. These trust activities are provided by municipal authority companies under trust management agreements. For most receivable balances due from municipal authorities, full provision is recognised in light of their past payment histories.

(e) Discontinued operations

Impairment losses within discontinued operations relate to the impairment of MKM (\$190 million) and the Maikuben West coal mine (\$69 million) – see notes 5(a) and 5(b) respectively.

Year ended 31 December 2008

(f) 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.

(g) 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. See note 16(a) for details on the assumptions used in the Kazakhmys Gold impairment test.

(h) 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.

(i) 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.

9. EMPLOYEE INFORMATION

\$ million	2009	2008
Wages and salaries	437	522
Social security costs	49	38
Post-employment benefits	2	3
	488	563

Employee costs are split between continuing operations and discontinued operations (see note 5) as \$415 million (2008: \$490 million) and \$73 million (2008: \$73 million), respectively.

Other non-monetary employee benefits (including sanatorium visits, medical services, nourishment and treatment expenses) are also provided by Kazakhmys LLC, and are included in the income statement in the expense line relating to the nature of the cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. EMPLOYEE INFORMATION CONTINUED

The average weekly number of employees during the year was as follows:

	2009	2008
Kazakhmys Copper		
Mining	14,243	14,838
Concentration	5,678	5,378
Smelting	5,706	5,775
Transport	1,197	4,769
Maintenance and services	19,602	20,574
Construction	3,008	3,199
Administration, social sphere and other	7,845	8,122
	57,279	62,655
MKM¹		
Production	689	677
Maintenance and services	213	219
Administration and other	159	156
	1,061	1,052
Kazakhmys Power²		
Production	524	597
Maintenance and services	1,083	983
Administration and other	338	386
	1,945	1,966
Kazakhmys Gold		
Production	910	1,122
Administration and other	126	171
	1,036	1,293
Kazakhmys Petroleum		
Production	77	40
Administration and other	14	21
	91	61
Head office		
Corporate Development Centre	78	26
Administration and other	139	96
	217	122
Total employees	61,629	67,149

¹ MKM is included within discontinued operations (see 5(a)).

² Kazakhmys Power is included within discontinued operations (see 5(b)).

Analysed as:

	2009	2008
Central Asia ¹	60,524	66,049
Germany	1,061	1,052
UK	37	40
Netherlands	2	2
China	5	6
	61,629	67,149

¹ Includes Kazakhstan and Kyrgyzstan.

The average weekly number of employees during the year within continuing operations is 58,623 (2008: 64,131) and 3,006 (2008: 3,018) within discontinued operations.

10. KEY MANAGEMENT PERSONNEL

In accordance with IAS 24 'Related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel of the Group are deemed to be the Directors of the Company, the Chief Financial Officer of the Company and Chief Executive Officer of Kazakhmys LLC.

Compensation for key management personnel (including Directors) comprises salaries, annual bonuses, share awards and benefits-in-kind amounted to \$9 million during the year (2008: \$8 million), all of which relates to short-term employee benefits.

Disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report and form part of these consolidated financial statements.

11. AUDITOR'S REMUNERATION

The auditors' remuneration for services provided to the Group during the year ended 31 December 2009 was \$3.0 million (2008: \$5.0 million), made up as follows:

\$ million	2009	2008
Ernst & Young LLP		
Audit	2.4	2.9
Assurance-related services	0.6	0.4
Transaction advisory services	–	1.7
Total remuneration	3.0	5.0

Group

For the year ended 31 December 2009, Ernst & Young LLP and its associates rendered assurance related services relating to the review of the half year report amounting to \$0.4 million (2008: \$0.4 million) and assurance services within Kazakhmys Power of \$0.2 million (2008: \$nil) relating to the audit of the IFRS standalone financial statements of Ekibastuz GRES-1 LLP. Ernst & Young LLP and its associates also provided transaction advisory services of \$nil (2008: \$1.7 million).

The audit of the consolidated financial statements amounted to \$0.8 million (2008: \$1.1 million). Fees payable for the audit of subsidiaries amounted to \$1.6 million (2008: \$1.8 million).

Auditor's remuneration in respect of continuing and discontinued operations was \$2.3 million and \$0.7 million, respectively (2008: \$4.4 million and \$0.6 million).

Company

The auditor's remuneration attributable to the Company was \$1.1 million (2008: \$3.2 million), which related to \$0.9 million for audit services (2008: \$1.2 million), \$0.2 million for assurance related services (2008: \$0.3 million) and \$nil for transaction advisory services (2008: \$1.7 million).

12. FINANCE INCOME AND FINANCE COSTS

\$ million	2009	2008
Finance income		
Interest income	8	21
Foreign exchange gains	471	92
Continuing operations	479	113
Interest income	1	2
Foreign exchange gains	17	22
Discontinued operations	18	24
	497	137
Finance costs		
Interest expense	(51)	(49)
Interest on employee obligations	(3)	(4)
Unwinding of discount on provisions	(6)	(5)
Finance costs before foreign exchange losses	(60)	(58)
Foreign exchange losses	(163)	(98)
Continuing operations	(223)	(156)
Interest expense	(10)	(17)
Unwinding of discount on provisions	(26)	–
Foreign exchange losses	(69)	(29)
Discontinued operations	(105)	(46)
	(328)	(202)

Of the foreign exchange gain within continuing operations of \$471 million, \$336 million arises as a result of the devaluation of the tenge in February 2009 (see note 3(a)). A foreign exchange loss of \$53 million is included within discontinued operations in relation to the devaluation impact on Kazakhmys Power.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. INCOME TAXES

(a) Income statement

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

\$ million	2009	2008
Current income tax		
Corporate income tax – current period (UK)	–	5
Corporate income tax – current period (overseas)	270	430
Corporate income tax – prior periods	1	(9)
Excess profits tax – current period	–	27
	271	453
Deferred income tax		
Corporate income tax – current period	(10)	(136)
Corporate income tax – prior periods	–	6
Excess profits tax – current period	–	1
	261	(129)
Income tax expense attributable to continuing operations	310	324
Current income tax attributable to discontinued operations	8	16
Deferred income tax attributable to discontinued operations	(14)	(164)
	(6)	(148)
Total income tax expense	255	176

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

\$ million	2009	2008
Profit before taxation from continuing operations	1,028	1,144
At statutory income tax rate of 28.0% (2008: 28.5% ¹)	288	326
Tax effect of share of profits from associate	(62)	(73)
Overprovided in previous years – deferred income tax	–	6
Over/(underprovided) in previous years – current income tax	1	(9)
Unrecognised tax losses	–	24
Effect of domestic tax rates applicable to individual Group entities	(67)	17
Effect of changes in future tax rates	6	(20)
Unremitted overseas earnings	18	11
Non-deductible expenses/(non-taxable income):		
Non-taxable income on zinc plant	–	(7)
Transfer pricing	28	–
Non-deductible expenses	49	21
Excess profits tax	–	28
Income tax expense attributable to continuing operations	261	324
Income tax attributable to discontinued operations	(6)	(148)
Total income tax expense	255	176

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 28.0% (2008: 28.5%) of the assessable profit for the year for the Company and its UK subsidiaries and 20.0% for the operating subsidiaries in Kazakhstan (2008: 30.0%). MKM, which is included as part of discontinued operations, has a tax rate of 28.5% (2008: 28.5%) and relates to German corporate income tax and trade tax.

The effective tax rate for continuing operations for 2009 is 25.4% (2008: 28.3%).

New tax legislation

The Government of Kazakhstan introduced a new Tax Code which came into force on 1 January 2009. Included within the new tax legislation was a phased reduction in corporate income tax (CIT) rates from 30% in 2008 to 15% in 2011, together with the introduction of the mineral extraction tax.

Excess profits tax

The new tax legislation removed the tax stabilisation of subsoil use contracts and changed the excess profits tax (EPT) methodology. Based on 2009 production and material flows within the Kazakhmys Copper and Kazakhmys Gold Divisions, there is no EPT charge for the year, compared to a charge of \$28 million in 2008. Prior to 1 January 2009, excess profits tax (EPT) was levied on certain profitable subsoil contracts where the cumulative internal rate of return for the current year exceeded 20% in a given period.

Year ended 31 December 2009

The effective tax rate is higher than the statutory rate due to the following reasons:

Transfer pricing

Included within the tax charge is \$28 million in respect of transfer pricing for 2009. New transfer pricing legislation came into force on 1 January 2009 as part of the introduction of the new Tax Code. This new legislation removed the 10% safe harbour provision which was permitted under the previous transfer pricing legislation and has been replaced by the concept of the 'arm's length principle'. However, this new legislation does not fully reflect the arm's length concept which forms the underlying basis of transfer pricing legislation within many OECD countries. Kazakhmys LLC has recognised a transfer pricing provision of \$28 million at 31 December 2009 based on management's interpretation of the new transfer pricing legislation and the prevailing status of discussions with the Kazakhstan tax authorities.

Non-deductible expenses

Included within non-deductible expenses is an amount of \$26 million in respect of the copper hedging programme within Kazakhmys LLC. A tax deduction is not available for the \$129 million hedging loss due to the tax treatment of these losses under Kazakhstan tax legislation.

Unremitted overseas earnings

Withholding taxes of \$18 million have been recognised in 2009 in relation to the unremitted earnings of subsidiaries as at 31 December 2009, which are expected to be remitted to the UK in the future through dividend distributions from Kazakhstan.

Equity accounting

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.

Year ended 31 December 2008

The income tax expense for the year includes a credit of \$178 million in respect of deferred income tax due to the impairment of the Kazakhmys Gold business and the enactment of the new tax legislation within Kazakhstan. This credit is split between continuing operations of \$52 million and discontinued operations of \$126 million, and is primarily made up of the following:

Continuing operations

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 were impaired during the year and this resulted in a taxation credit in the income statement of \$32 million.

Additionally, the non-acquisition related deferred tax liabilities within the Group's Kazakhstan businesses were recalculated taking into account the lower corporate income tax rates resulting from the new Kazakhstan tax legislation. This calculation gave rise to a \$20 million taxation credit in the income statement.

Discontinued operations

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. As a consequence of the new Kazakhstan tax legislation, the deferred tax liability on the fair value adjustments was recalculated as \$141 million resulting in a taxation credit in the income statement of \$126 million.

Future tax rates

Future tax charges are affected by the mix of profits and tax rates in the various tax jurisdictions in which the Group operates. With the enactment of further new tax legislation in Kazakhstan in November 2009, which is effective from 1 January 2010, the corporate income tax rate will be frozen at 20% for the years 2010-2012 rather than being reduced to 17.5% in 2010 and 15% in 2011, which were to have been the revised rates under the previous tax legislation, which was effective from 1 January 2009. The lower corporate income tax rate in Kazakhstan 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%.

(b) Recognised deferred tax assets and liabilities

The amounts of deferred taxation assets/(liabilities) provided in the financial statements are as follows:

\$ million	As at 1 January 2009	Recognised in the income statement		Transfer to liabilities held for sale	Net exchange translation	As at 31 December 2009
		Continuing operations	Discontinued operations			
Intangible assets	(6)	(1)	–	–	1	(6)
Property, plant and equipment	(201)	(11)	12	107	35	(58)
Mining assets	(11)	5	5	–	2	1
Inventories	12	(4)	(3)	6	(2)	9
Trade and other receivables	(1)	10	(2)	–	–	7
Provisions	16	6	2	(3)	(3)	18
Taxes payable	1	13	–	–	–	14
Tax losses	4	10	–	–	–	14
Unremitted overseas earnings	(80)	(18)	–	–	–	(98)
Deferred tax liability, net	(266)	10	14	110	33	(99)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. INCOME TAXES CONTINUED

\$ million	As at 1 January 2008	Business acquisition	Recognised in the income statement		Net exchange translation	As at 31 December 2008
			Continuing operations	Discontinued operations		
Intangible assets	(24)	(1)	18	1	–	(6)
Property, plant and equipment	(180)	(266)	108	136	1	(201)
Mining assets	(35)	(14)	30	7	–	(12)
Inventories	(21)	1	13	18	2	13
Trade and other receivables	10	–	(13)	2	–	(1)
Provisions	27	1	(12)	–	–	16
Taxes payable	2	–	(1)	–	–	1
Tax losses	6	–	(2)	–	–	4
Unremitted overseas earnings	(69)	–	(11)	–	–	(80)
	(284)	(279)	130	164	3	(266)
Deferred excess profits tax	1	–	(1)	–	–	–
Deferred tax liability, net	(283)	(279)	129	164	3	(266)

The deferred tax assets shown in the tables above arise within Kazakhmys LLC and are offset against deferred tax liabilities arising in the same entity and in the same jurisdiction. The 2009 deferred tax liability includes \$110 million which is directly associated with the assets classified as held for sale.

(c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the accounts are as follows:

\$ million	2009		2008	
	Temporary difference	Deferred tax asset	Temporary difference	Deferred tax asset
Continuing operations: Kazakhstan – tax losses				
Losses carried forward	25	5	32	10
Discontinued operations: Germany – tax losses				
Corporate income tax	106	30	109	31
Trade tax	85	24	67	19
Total losses carried forward	191	54	176	50

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

(i) Kazakhstan

At 31 December 2009, Kazakhmys LLC has corporate income tax losses on certain mines that can be carried forward and used against future taxable profits arising from those mines. Under Kazakhstan tax legislation, tax losses from loss making mines may not be offset against the taxable profits of profitable mines. Kazakhmys LLC expects that certain mines will be in a tax loss making position for the foreseeable future and will have no taxable profits against which the losses can be offset. Therefore, no deferred tax asset has been recognised in respect of the tax losses associated with these mines. Tax losses arising from mines that are expected to be profitable in the future have been recognised as deferred tax assets.

(ii) Germany

MKM has at 31 December 2009 corporate income tax losses that can be carried forward and used against future taxable profits, subject to restrictions set out under German tax legislation. There is no time restriction over the utilisation of tax losses. Due to the past history of tax losses, there is insufficient certainty that a taxable profit will arise against which the losses can be offset. For these reasons, no deferred tax asset has been recognised.

(d) Unrecognised deferred tax liability

The Group has not recognised all of the deferred tax liability in respect of the distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

The gross temporary differences in respect of the undistributed reserves of the Group's subsidiaries, as shown in their statutory accounts prepared in accordance with applicable accounting standards, are as follows:

\$ million	2009	2008
Undistributed reserves of subsidiaries	4,890	3,033

14. EARNINGS PER SHARE

(a) Basic and diluted EPS

Basic EPS is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. Purchases of the Company's shares by the Employee Benefit Trust are dilutive ordinary shares.

(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	2009	2008
Net profit attributable to owners of the Company from continuing operations	768	819
Special items:		
Impairment of goodwill	–	46
Impairment of property, plant and equipment	50	120
Impairment of mining assets	23	126
Provisions against inventories	14	73
Loss on disposal of property, plant and equipment	1	1
Net foreign exchange gain arising on devaluation of the Kazakhstan tenge:		
Managed businesses	(336)	–
Associate	(55)	–
Tax effect of non-recurring items:		
Managed businesses	52	–
Associate	11	–
Change in deferred tax liabilities:		
Impairment of Kazakhmys Gold	6	(32)
Change in tax rates in Kazakhstan:		
Managed businesses – note 13(a)	6	(20)
Associate	4	–
Minority interest effect of non-recurring items	1	(1)
Underlying Profit from continuing operations	545	1,132
Net profit attributable to owners of the Company from discontinued operations	(214)	90
Special items:		
Impairment of goodwill	16	–
Impairment of other intangible assets	2	–
Impairment of property, plant and equipment	150	–
Impairment of mining assets	36	–
Provisions against inventories	52	15
Loss on disposal of property, plant and equipment	–	1
Net foreign exchange loss arising on devaluation of the Kazakhstan tenge	53	–
Tax effect of non-recurring items	(11)	–
Change in deferred tax liabilities:		
Impairment of MKM and Maikuben West	(34)	–
Change in tax rates in Kazakhstan	7	(126)
Underlying Profit from discontinued operations	57	(20)
Total Underlying Profit	602	1,112
Number	2009	2008
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	535,136,298	490,289,985
EPS based on Underlying Profit – basic and diluted (\$)		
From continuing operations	1.02	2.31
From discontinued operations	0.11	(0.04)
	1.13	2.27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. DIVIDENDS PAID AND PROPOSED

(a) Dividends paid

The dividends paid during the year ended 31 December 2008 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

(i) Year ended 31 December 2009

No dividends were paid by the Company in respect of the year ended 31 December 2009.

(ii) 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.

(b) Dividends declared after the balance sheet date

	Per share US cents	Amount \$ million
Proposed by the Directors on 3 March 2010 (not recognised as a liability as at 31 December 2009):		
Final dividend in respect of the year ended 31 December 2009	9.0	48

In relation to the dividends proposed by the Directors on 3 March 2010, the UK pounds sterling per ordinary share amount is 5.8975 pence.

16. INTANGIBLE ASSETS

\$ million	Goodwill	Licences	Other	Total
Cost				
At 1 January 2008	46	516	16	578
Business acquisition	568	1	–	569
Additions	–	7	8	15
Goodwill impairment	(46)	–	–	(46)
Net exchange adjustment	–	(1)	–	(1)
At 31 December 2008	568	523	24	1,115
Additions	–	6	6	12
Disposals	–	–	(1)	(1)
Goodwill impairment	(16)	–	–	(16)
Transfer to assets classified as held for sale	(443)	(3)	(2)	(448)
Net exchange adjustment	(109)	(28)	(3)	(140)
At 31 December 2009	–	498	24	522
Amortisation				
At 1 January 2008	–	6	4	10
Amortisation charge	–	2	1	3
Impairment	–	–	2	2
At 31 December 2008	–	8	7	15
Amortisation charge	–	1	1	2
Disposals	–	–	(1)	(1)
Impairment	–	1	1	2
Transfer to assets classified as held for sale	–	(3)	(1)	(4)
Net exchange adjustment	–	(1)	(1)	(2)
At 31 December 2009	–	6	6	12
Net book value				
At 31 December 2009	–	492	18	510
At 31 December 2008	568	515	17	1,100

During the year ended 31 December 2009, the Group acquired licences totalling \$6 million (2008: \$7 million). Of this \$6 million of additions in 2009, \$6 million (2008: \$3 million) was capitalised by the Group in respect of contractual reimbursements to the Government for geological information and social commitments. This latter amount is a non-cash item and is recorded within provisions for payments of licences.

The amortisation charge for the year is allocated to production expenses \$1 million (2008: \$2 million) and administrative expenses \$1 million (2008: \$1 million) as appropriate.

Impairment testing – Goodwill

The Group performs goodwill impairment testing on an annual basis and when there are indicators of impairment. In assessing whether goodwill has been impaired, the carrying amount of the cash generating unit to which goodwill is allocated, is compared to its recoverable amount.

(a) Kazakhmys Gold

Year ended 31 December 2009

All goodwill associated with Kazakhmys Gold was fully written off in 2008.

Year ended 31 December 2008

The \$46 million of goodwill relating to Kazakhmys Gold arose as a consequence of the requirement to recognise a deferred tax liability on the fair value adjustments, and was allocated to Kazakhmys Gold's four cash generating units as follows: (i) Kazakhstan operating mines – \$6 million, (ii) Mizek sulphide development project (Kazakhstan) – \$14 million, (iii) Bozymchak development project (Kyrgyzstan) – \$20 million, and (iv) Akjilga development project (Tajikistan) – \$6 million.

During the year, the Group has undertaken an impairment review of the Kazakhmys Gold segment, and the goodwill of \$46 million arising on the acquisition has been impaired in full in addition to mining assets of \$112 million 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 (see note 8(g)).

The recoverable amount has been determined based on a combination of 'value in use' and 'fair value less costs to sell' calculations and is based on the cash flows expected to be generated from existing operations and development projects. Cash flows are projected for periods up to the date that mining and refining is expected to cease based on management's current expectations. For current operations, the completion dates are based on recent assessments of the reserves and resources available and annual ore extraction rates, and are expected to cease by the end of 2011. For the development projects, the commencement dates for mining (between 2011 and 2014) reflect management's expectations of the life of mine given current financing constraints, the time required to complete technical studies and to develop infrastructure and facilities at the mines for production to commence. Mining will cease at the development projects at dates between 2016 and 2027 depending on the project, and cash flows have been forecast to these dates.

The key assumptions used in the recoverable amount calculations are:

- recoverable amount of reserves and resources;
- commodity prices;
- discount rates;
- timing of capital expenditure;
- inflation; and
- exchange rates.

Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites, technical studies and exploration and evaluation work undertaken by in-house and third party specialists.

Long-term commodity prices are based on external market consensus forecasts. Specific prices are determined from information available in the market after considering the nature of the commodity produced and long-term market expectations. The long-term gold and silver prices used in the impairment test, based on market consensus, were \$750/oz and \$11.50/oz, respectively.

A discount rate of 10% was used in the recoverable amount calculations, which represents the pre-tax rate that reflects the Group's current market assessments of the time value of money and the risks specific to the cash generating unit.

Management have estimated the timing of capital expenditure on the development projects based on the Group's current and future financing plans and the results of technical studies completed to date.

Long-term inflation rates for the countries that the operating mines and development projects are located in have been used in the calculations. These are based on information available in the market and country specific research. Long-term inflation rates used for Kazakhstan, Kyrgyzstan and Tajikistan in the impairment test were 4.9%, 5.9% and 9.7%, respectively.

In assessing the 'fair value less costs to sell', another key assumption is foreign exchange rates. These are based on external market consensus forecasts, and specific rates are determined from information available in the market after considering long-term market expectations and the countries in which the cash generating unit operates.

(b) Kazakhmys Power

Year ended 31 December 2009

Prior to the Kazakhmys Power Division being classified as an asset held for sale, an impairment test was performed on the acquisition goodwill of Kazakhmys Power in accordance with IAS 36 'Impairment of assets' using a 'fair value less costs to sell' basis. Goodwill of \$459 million arose on the acquisition of Kazakhmys Power (after re-translation – see note 4) and is allocated to the division's two cash generating units as follows: (i) Ekibastuz power plant – \$443 million, and (ii) Maikuben West coal mine – \$16 million.

When determining the fair value less costs to sell for the Ekibastuz power plant, management have used the sales price agreed with Samruk. Management have concluded that given that the Power Division is classified as an asset held for sale it was more appropriate to derive the fair value less cost to sell from the observable market price rather than a discounted cash flow calculation.

Based on the results of the impairment test, the amount by which the Ekibastuz power plant's recoverable amount exceeds its carrying amount is \$243 million (recoverable amount \$1,362 million and carrying value \$1,119 million), and therefore the goodwill arising on the acquisition of the Ekibastuz power plant is not impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. INTANGIBLE ASSETS CONTINUED

The goodwill relating to the acquisition of the Maikuben West coal mine has been written down to zero. This impairment is a result of a change in the long-term strategy of the mine following the announcement of the sale of 50% of the Ekibastuz GRES-1 power station to Samruk (see note 5(b)).

Year ended 31 December 2008

Management has performed an impairment test of the goodwill arising from the acquisition of Kazakhmys Power at the year end as required by IAS 36 using a 'fair value less costs to sell' basis. Goodwill of \$568 million arose on the acquisition of Kazakhmys Power and is allocated to the division's two cash generating units as follows: (i) Ekibastuz power plant – \$548 million, and (ii) Maikuben West coal mine – \$20 million.

The key assumptions used in the impairment test are:

- electricity generation volumes;
- tariff prices;
- discount rates;
- timing of capital expenditure; and
- inflation and exchange rates.

Electricity generation volumes are based on management's expectations based on supply and demand dynamics within Kazakhstan and the timing of capital expenditure required to increase the capacity of the power station.

Tariff prices are based on management's expectations with reference to commentary given by the Government with regards to setting tariff prices in the future and increase from \$0.020/kWh in 2008 to \$0.030/kWh in 2012. The Department of Energy has stated that they expect tariff prices to reach \$0.035/kWh by 2010. However, for the purposes of the impairment test, a more conservative approach has been adopted with tariff prices not expected to exceed this level until 2014. Tariff prices are assumed to increase at the long-term inflation rate for all years after 2012.

The discount rate used in the recoverable amount calculations represents the pre-tax rate that reflects the Group's current market assessments of the time value of money and the risks specific to the two cash generating units. The discount rates used in the impairment test for the Ekibastuz power plant and Maikuben West coal mine were 12.4% and 15.8%, respectively.

Management have estimated the timing of capital expenditure based on the Group's current and future financing plans and the results of technical studies completed at the time of acquisition.

Long-term inflation and exchange rates for Kazakhstan have been used in the calculations. These are based on information available in the market and country specific research. A long-term inflation rate of 4.9% for Kazakhstan has been used in the impairment test and the range of KZT/\$ exchange rates used in the impairment test was KZT150/\$1 in 2009 to KZT135/\$1 in 2013.

Based on the results of the impairment test, the goodwill arising on the acquisition of Kazakhmys Power is not impaired.

Sensitivity to changes in assumptions

If the values of the key assumptions were to move by the following amounts, then fair value less costs to sell would equal the carrying value of each cash generating unit. All changes are assumed to happen in isolation:

Ekibastuz power plant cash generating unit:

- if electricity sales volumes were to decrease by 3.2% for each year, then the recoverable amount would equal the carrying amount;
- if the rate of growth in tariff prices was less than forecast such that tariff prices grew at a rate of 3.1% less than that assumed for each year, then the recoverable amount would equal the carrying amount;
- if the discount rate increased from 12.4% to 13.5%, then the recoverable amount would equal the carrying amount.

Maikuben West coal mine cash generating unit:

- if coal sales volumes were to decrease by 1.3% for each year, then the recoverable amount would equal the carrying amount;
- if the rate of growth in coal prices was less than forecast such that coal prices grew at a rate of 1.2% less than that assumed for each year, then the recoverable amount would equal the carrying amount;
- if the discount rate increased from 15.8% to 16.3%, then the recoverable amount would equal the carrying amount.

The amounts by which the units' recoverable amount exceeds their carrying amount is \$146 million for the Ekibastuz power plant and \$4 million for the Maikuben West coal mine.

17. PROPERTY, PLANT AND EQUIPMENT

\$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2008	991	1,470	263	624	3,348
Business acquisition	642	323	1	23	989
Additions	40	224	96	294	654
Capitalised depreciation	–	–	–	3	3
Transfers	274	126	6	(406)	–
Reclassifications	(1)	3	(2)	–	–
Disposals	(9)	(31)	(4)	(12)	(56)
Net exchange adjustment	(8)	(14)	(3)	(3)	(28)
At 31 December 2008	1,929	2,101	357	523	4,910
Additions	8	174	23	122	327
Capitalised depreciation	–	–	–	2	2
Transfers	156	69	–	(225)	–
Disposals	(5)	(11)	(3)	(9)	(28)
Transfer to assets classified as held for sale	(625)	(454)	(13)	(46)	(1,138)
Net exchange adjustment	(384)	(358)	(65)	(63)	(870)
At 31 December 2009	1,079	1,521	299	304	3,203
Depreciation and impairment					
At 1 January 2008	347	762	100	10	1,219
Depreciation charge	68	193	31	–	292
Reclassifications	–	1	(1)	–	–
Disposals	(6)	(28)	(3)	–	(37)
Impairment	82	26	–	12	120
Net exchange adjustment	(3)	(6)	(1)	–	(10)
At 31 December 2008	488	948	126	22	1,584
Depreciation charge	65	183	27	–	275
Disposals	(2)	(9)	(2)	–	(13)
Impairment	56	106	12	26	200
Transfer to assets classified as held for sale	(90)	(236)	(11)	–	(337)
Net exchange adjustment	(90)	(162)	(25)	(3)	(280)
At 31 December 2009	427	830	127	45	1,429
Net book value					
At 31 December 2009	652	691	172	259	1,774
At 31 December 2008	1,441	1,153	231	501	3,326

(a) Deemed cost of assets within Kazakhmys LLC

For the purpose of the transition to IFRS in 2002, the Directors commissioned an independent company which held a State licence to conduct valuations, to carry out an independent appraisal of property, plant and equipment as of 1 January 2002 to determine their deemed cost at that date.

The deemed cost of property, plant and equipment as of 1 January 2002 was determined primarily with reference to depreciated replacement cost. The Directors believe that the deemed cost reflected the economic conditions of the Group's property, plant and equipment at that time.

(b) Cost of assets within acquired businesses

The cost of property, plant and equipment acquired through business acquisitions since the IFRS transition date in 2002 is based on the results of IFRS fair value exercises undertaken at the time of acquisition.

(c) Impairment

During 2009, property, plant and equipment of \$200 million (2008: \$120 million) was impaired, of which \$50 million relates to the Kazakhmys Copper segment, \$133 million relates to MKM and \$17 million relates to the Power segment (see note 6(a)(iii)).

(d) Fully depreciated assets

At 31 December 2009, the cost of fully depreciated property, plant and equipment within Kazakhmys LLC was \$380 million (2008: \$333 million), within MKM was \$22 million (2008: \$8 million), and within other Group entities was \$5 million (2008: \$8 million).

(e) Capitalised borrowing costs

No borrowing costs were capitalised by the Group during the year (2008: \$nil) as no significant qualifying assets commenced construction after 1 January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. PROPERTY, PLANT AND EQUIPMENT CONTINUED

(f) MKM investment grants and subsidies

Within MKM there were no significant investment grants and subsidies received from the German government during 2009 and 2008. As at 31 December 2009, gross carrying value of property, plant and equipment previously subsidised by the German government amounted to \$12 million (2008: \$13 million).

(g) Allocation of depreciation between continuing and discontinued operations

The depreciation charge for the year is allocated to continued operations \$203 million (2008: \$232 million) and discontinued operations \$72 million (2008: \$60 million).

18. MINING ASSETS

\$ million	Mine development costs	Mine stripping costs	Total
Cost			
At 1 January 2008	360	58	418
Business acquisition	–	46	46
Additions	19	9	28
Capitalised depreciation	–	1	1
Disposals	(3)	(45)	(48)
Net exchange adjustment	(3)	(1)	(4)
At 31 December 2008	373	68	441
Additions	89	6	95
Capitalised depreciation	1	–	1
Transfer to assets classified as held for sale	–	(36)	(36)
Net exchange adjustment	(67)	(14)	(81)
At 31 December 2009	396	24	420
Depletion and impairment			
At 1 January 2008	29	1	30
Depletion charge	14	44	58
Disposals	(3)	(45)	(48)
Impairment	115	11	126
At 31 December 2008	155	11	166
Depletion charge	12	1	13
Impairment	23	36	59
Transfer to assets classified as held for sale	–	(36)	(36)
Net exchange adjustment	(28)	(2)	(30)
At 31 December 2009	162	10	172
Net book value			
At 31 December 2009	234	14	248
At 31 December 2008	218	57	275

During 2009, mining assets of \$59 million (2008: \$126 million) were impaired, analysed between \$23 million (2008: \$112 million) for the Kazakhmys Gold segment, \$36 million (2008: \$nil) for the Kazakhmys Power segment and \$nil (2008: \$14 million) for the Kazakhmys Copper segment (see note 6(a)(iii)).

19. INVESTMENT IN ASSOCIATE

In 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.

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 share holding 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 and 2009 was 334,824,860.

\$ million	2009	2008
Investment in associate		
At 1 January	4,045	–
Reclassified from available for sale investment	–	3,442
Additions	–	3,028
Share of profits from associate ^{1,2}	223	255
Net share of losses of associate recognised in equity ²	(315)	(6)
Impairment recognised against unrealised gain on available for sale investment in equity	–	(2,636)
Dividends received	(84)	(38)
At 31 December	3,869	4,045

¹ Share of profits from associate is net of tax.

² Based on ENRC's published unaudited results.

At 31 December 2009, the Group's 26.0% in ENRC had a market value of \$4,879 million (31 December 2008: \$1,600 million) which is determined by reference to the published price quotation on the London Stock Exchange.

In light of the positive movement in share prices seen during the 2009 financial year, particularly those of natural resource companies, and the upward trend in short and long-term commodity prices, the Directors do not believe that an impairment indicator has arisen with regards to the Group's investment in ENRC at 31 December 2009.

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 unaudited results:

\$ million	2009	2008
Share of associate's assets and liabilities		
Total assets	2,500	2,604
Total liabilities	(419)	(446)
Net assets	2,081	2,158
Carrying amount of the investment	3,869	4,045

\$ million	2009	2008
Share of associate's revenue and profit		
Revenue	996	721
Operating profit	316	372
Profit before finance items and taxation	308	370
Net finance costs and share of loss of joint venture	17	(16)
Income tax expense and minority interests	(102)	(99)
Profit for the period	223	255

Year ended 31 December 2008

Following the piecemeal acquisition of ENRC, 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 at a time prior to the sharp decrease in commodity prices and share prices of listed natural resource companies, and the prevailing market value of ENRC at that time was considerably in excess of the recoverable amount. The Group's cost of investment in the associate in excess of the fair value, arising from the piecemeal acquisition, 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 for its investment in ENRC. The recoverable amount used in assessing the impairment charge is value in use using a discounted cash flow model. The future cash flows are discounted using a pre-tax discount rate of 13%.

20. INVENTORIES

\$ million	2009	2008
Raw materials and consumables	222	318
Work in progress	247	312
Finished goods	123	194
Gross value of inventories	592	824
Inventories provision	(92)	(90)
	500	734

The carrying amount of inventory that has been written down to net realisable value is \$109 million (2008: \$93 million).

The carrying amount of inventory recorded at fair value less costs to sell is \$33 million (2008: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. PREPAYMENTS AND OTHER CURRENT ASSETS

\$ million	2009	2008
Advances paid for goods and services	144	82
Advanced payment of deferred consideration arising from business acquisition	102	–
VAT reclaimable	42	116
Amounts due from related parties	28	15
Other	24	34
Gross value of prepayments and other current assets	340	247
Provision for impairment of receivables	(15)	(9)
	325	238

Provision for impairment as at 31 December 2009 includes a provision against the advance paid to Vertex LLP, a related party (included within 'other' – see note 35), amounting to \$8 million (2008: \$nil).

The advanced payment of deferred consideration of \$102 million is in respect of the cash collateralised standby letter of credit to AES Corporation following the early completion of the management contract with AES Corporation in March 2009. The issuing bank behind the standby letter of credit paid this amount to AES Corporation in January 2010.

22. TRADE AND OTHER RECEIVABLES

\$ million	2009	2008
Trade receivables	199	267
Amounts due from related parties	83	60
Amounts due from third parties	116	207
Interest receivable	3	2
Other receivables	–	8
Gross value of trade and other receivables	202	277
Provision for impairment of receivables	(52)	(44)
	150	233

Included within trade receivables is an amount of \$13 million (2008: \$8 million within trade payables) in respect of provisionally priced metal sales which are marked-to-market using forward prices in accordance with the Group's revenue recognition accounting policy.

Provision for impairment as at 31 December 2009 includes a provision on the receivables from JSC Water/Heat Supply, a related party (included within 'companies under trust management' – see note 35), amounting to \$35 million (2008: \$25 million).

23. CURRENT INVESTMENTS

\$ million	2009	2008
At 1 January	32	57
Additions	74	103
Disposals	(43)	(128)
Net exchange adjustment	(5)	–
At 31 December 2009	58	32

Current investments consist of bank deposits with initial terms of maturities of more than three months that are held within Kazakhstan and are invested with major Kazakhstan banks and local branches of international financial institutions.

24. CASH AND CASH EQUIVALENTS

\$ million	2009	2008
Cash deposits with maturities of less than three months	722	44
Cash at bank	180	496
Petty cash	1	–
Continuing operations	903	540
Discontinued operations	42	–
Cash and cash equivalents in the statement of cash flows	945	540

25. SHARE CAPITAL AND RESERVES

(a) Allotted share capital

	Number	£ million	\$ million
Authorised – At 31 December 2008			
Ordinary shares of 20 pence each	750,000,000	150	–
Allotted and called up share capital			
At 1 January 2008	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 and 2009	535,240,338	107	200

In January 2008 the Company completed a share buy-back programme and cancelled 5,169,000 ordinary shares at 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) Own shares

At 31 December 2009, the Group, through an Employee Benefit Trust, owned 379,825 Kazakhmys PLC shares (2008: nil) with a market value of \$8 million and a cost of \$7 million.

(c) Capital reserves

\$ million	Reserve fund	Net unrealised gains reserve	Currency translation reserve	Capital redemption reserve	Hedging reserve	Total
At 1 January 2008	42	1,595	447	4	–	2,088
Unrealised gain on available for sale investment	–	1,041	–	–	–	1,041
Impairment of associate recognised against unrealised gain on available for sale investment in equity	–	(2,636)	–	–	–	(2,636)
Share of gains/(losses) of associate recognised in equity	–	(2)	(1)	–	(8)	(11)
Gains on cash flow hedges taken to equity	–	–	–	–	(142)	(142)
Gains on cash flow hedges included in income statement	–	–	–	–	143	143
Purchase of Company's issued share capital	–	–	–	2	–	2
Exchange differences on retranslation of foreign operations	–	–	(36)	–	–	(36)
At 31 December 2008	42	(2)	410	6	(7)	449
Share of gains/(losses) of associate recognised in equity	–	2	(317)	–	5	(310)
Losses on cash flow hedges taken to equity	–	–	–	–	138	138
Losses on cash flow hedges included in income statement	–	–	–	–	(138)	(138)
Exchange differences on retranslation of foreign operations ¹	–	–	(1,133)	–	–	(1,133)
At 31 December 2009	42	–	(1,040)	6	(2)	(994)

¹ Of the \$1,133 million of foreign exchange differences recognised in the currency translation reserve for the year, \$101 million relates to discontinued operations.

(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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. SHARE-BASED PAYMENT PLANS

Commencing from 2007, the Company established a Long Term Incentive Plan (LTIP) and a Deferred Share Bonus Plan (DSBP). The total expense for the year ended 31 December 2009 arising from these plans was \$1 million (2008: \$1 million).

Both plans are discretionary benefits offered by the Company for the benefits of its employees. The main purpose is to increase the interest of the employees in Kazakhmys' long-term business goals and performance through share ownership. They represent incentives for employees' future performance and commitment to be aligned to the goals of the Group. The shares issued under these plans are dilutive ordinary shares as the Company purchased 379,825 shares at a cost of \$7 million through an Employee Benefit Trust during the year. For any future awards, the Company may issue new shares to the Employee Benefit Trust rather than purchase the shares in the open market.

(a) Long Term Incentive Plan

Under the LTIP, shares are granted to senior management of the Company at nil cost. The vesting of the shares is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies, as well as a requirement for the recipients of awards to remain in employment with the Company over the vesting period. There are no cash settlement alternatives.

The first awards, granted on 3 December 2007, under the LTIP were made with either a two year vesting period or a three year vesting period. Awards over 11,226 shares were granted with a two year vesting period and awards over 37,862 shares were granted with a three year vesting period. The awards with a two year vesting period did not vest and lapsed during the year.

On 7 April 2008, awards over 66,202 shares were granted with a three year vesting period.

On 7 April 2009, awards over 262,987 shares were granted with a three year vesting period. A further 74,240 shares were granted on 26 November 2009 with a three year vesting period.

Additional awards are due to be granted to senior management in April 2010 and these will be subject to the same vesting criteria as the awards granted on 7 April 2009.

The fair value of the shares was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share performance.

The following table shows the movements in the number of shares during the year:

Number	2009	2008
Outstanding at 1 January	115,290	49,088
Granted on 7 April 2008 – 3 year vesting period	–	66,202
Granted on 7 April 2009 – 3 year vesting period	262,987	–
Granted on 26 November 2009 – 3 year vesting period	74,240	–
Lapsed on 3 December 2009	(11,226)	–
Outstanding at 31 December	441,291	115,290
Exercisable at 31 December	–	–

The following table lists the inputs to the model:

	2009	2009	2008	2007
	Shares granted with a 3 year vesting period November 2009	Shares granted with a 3 year vesting period April 2009	Shares granted with a 3 year vesting period April 2008	Shares granted with a 3 year vesting period December 2007
Number of awards	74,240	262,987	66,202	37,862
Fair value at grant date	£8.11	£3.23	£11.43	£7.704
Share price at grant date	£12.13	£4.22	£16.97	£13.45
Exercise price	£nil	£nil	£nil	£nil
Expected volatility	77.9%	74.0%	44.5%	41.7%
Expected weighted average life at 31 December 2009	2.9 years	2.3 years	1.3 years	0.9 years

The award of shares are not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. On vesting of the award, the participants are entitled to cash equal to the value of dividends (excluding the dividend tax credit) that would have been paid on those shares between the grant date and the date of vesting. Therefore, expected dividend yield does not affect the valuation of the awards and has been set at zero to achieve this effect. Expected volatility is based on historic share price movements.

(b) Deferred Share Bonus Plan

On 7 April 2009, awards over 63,740 shares were granted to employees based on an average share price at grant date of £4.22 with a two year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2008 bonus.

On 7 April 2008, awards over 11,403 shares were granted to employees based on an average share price at grant date of £15.95 with a two year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2007 bonus.

Additional shares under the DSBP are due to be granted to employees in April 2010 based on the deferred amount of an employee's 2009 bonus. The number of shares granted to employees will be based on the cash value of the deferred bonus and the average share price for a period of time prior to the grant date in April 2010. The shares granted will vest after a period of two years after grant date. At 31 December 2009, the cash value of the awards eligible for the DSBP, for which shares will be granted in April 2010, was \$0.4 million.

27. EMPLOYEE BENEFITS

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet for the respective plans:

\$ million	2009	2008
Kazakhstan (post-retirement benefits)	50	38
Germany (part-time contracts)	–	2
Recognised liability for employee benefit obligations	50	40

(a) Continuing operations – Kazakhstan

\$ million	2009	2008
Net liability at 1 January	38	34
Employer's share of current service cost	2	1
Employer's share of past service cost	14	–
Net actuarial losses recognised in the period	1	1
Interest cost on benefit obligation	3	4
Benefits provided to employees	(1)	(2)
Net exchange adjustment	(7)	–
Net liability at 31 December	50	38

Kazakhmys LLC provides post-retirement benefits in Kazakhstan which are unfunded. These benefits include one-time retirement grants, financial aid, dental care, medical benefits, long-term disability allowances, sanatorium visits, annual financial support to pensioners, free tickets for city buses, privilege tickets for shuttle buses and funeral aid. The actuarial gain on prior period service costs which existed as at 31 December 2009 amounted to \$3 million (2008: actuarial loss of \$15 million). A discount rate of 8.0% (2008: 7.5%) has been used in calculating the employee benefit liabilities and associated charges, as measured in Kazakhstan tenge.

The Group continues to pay the non-monetary benefits described in note 9.

(b) Discontinued operations – Germany

\$ million	2009	2008
Net liability at 1 January	2	3
Benefits provided to employees	(1)	(1)
Transfer to liabilities directly associated with the assets classified as held for sale	(1)	–
Net liability at 31 December	–	2

In Germany, MKM has obligations arising from part-time contracts for older employees that have been collectively agreed with the employees' trade union. Non-current investments amounting to \$1 million (2008: \$1 million) have been set aside to fund MKM's obligations relating to part-time contracts.

28. PROVISIONS

\$ million	Site restoration and clean up	Payments for licences	Deferred consideration	Other	Total
At 1 January 2008	44	68	–	–	112
Business acquisition	–	3	169	18	190
Arising during the year	3	3	–	–	6
Utilised	–	(3)	(5)	–	(8)
Unwinding of discount	1	3	1	–	5
At 31 December 2008	48	74	165	18	305
Arising during the year	–	6	–	7	13
Utilised	(3)	(12)	(83)	(13)	(111)
Unwinding of discount	3	5	20	4	32
Foreign exchange loss	–	19	–	–	19
Transfer to liabilities directly associated with assets classified as held for sale	(3)	(2)	(102)	(8)	(115)
Net exchange adjustment	(8)	(15)	–	(8)	(31)
At 31 December 2009	37	75	–	–	112
Current	–	17	–	–	17
Non-current	37	58	–	–	95
At 31 December 2009	37	75	–	–	112
Current	–	6	83	18	107
Non-current	48	68	82	–	198
At 31 December 2008	48	74	165	18	305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28. PROVISIONS CONTINUED

(a) Site restoration and clean up

The costs of decommissioning and reclamation of mines within the Group are based on the amounts included in the Group's contracts for subsoil use. The provision represents the discounted values of the estimated costs to decommission and reclaim the mines at the dates of depletion of each of the deposits. The present value of the provision has been calculated using a discount rate of 3% (2008: 3%) per year. The liability becomes payable at the end of the useful life of each mine which ranges from one to 40 years. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, and the levels of discount and inflation rates.

(b) Payments for licences for mining assets

In accordance with its contracts for subsoil uses the Group is liable to repay the costs of geological information provided by the Government of Kazakhstan for licensed deposits. The total amount payable by the Group is discounted to its present value using a discount rate of 8% (2008: 8%). The uncertainties include estimating the amount of the payments and their timing. The amounts are payable prior to 2019.

(c) Payments for licences for exploration assets

In accordance with the terms of the exploration licence, Kazakhmys Petroleum LLP is liable to make payments to the Government for geological information and social commitments in Astana and the Aktobe region. The present value of the obligations is estimated by applying a discount rate of 12% (2008: 12%).

(d) Deferred consideration

Provision for deferred consideration was made for future payments arising from the acquisition of Kazakhmys Power in May 2008. On a gross basis \$80 million was payable to AES Corporation in April 2009 and \$102 million was required to cash collateralise the standby letter of credit in December 2009. No further amounts are payable in respect of this acquisition after December 2009.

(e) Other

Other provisions are recorded where the Group has a legal or constructive obligation and a future outflow of resources is considered probable. Other provisions primarily relate to a provision for property taxes as at the date of acquisition of Kazakhmys Power in May 2008, settlement of which was made in July 2009 thereby extinguishing any further liability at 31 December 2009.

29. BORROWINGS

\$ million	Maturity	Average interest rate during the year	Currency of denomination	Current \$ million	Non-current \$ million	Total \$ million
31 December 2009						
Pre-export finance facility ¹ – US\$ LIBOR + 1.25%	2013	2.08%	US dollar	518	1,132	1,650
Revolving trade finance facility ² – EURIBOR + 3.00%	2012	3.29%	Euro	–	157	157
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

¹ Relates to continuing operations.

² Relates to discontinued operations (see note 5(b)).

(a) Continuing operations**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 for \$2,100 million with a syndicate of banks to be used for general corporate purposes, including the acquisition of the Ekibastuz GRES-1 power plant and Maikuben West coal mine and incremental purchases of shares in ENRC. As at 31 December 2008 and 2009, the facility was fully drawn. The loan is secured on the value of copper sales contracts with certain designated customers. Monthly loan repayments commenced in March 2009 and will continue through to February 2013 following a one year availability period. Arrangement fees with an amortised cost as at 31 December 2009 of \$12 million (2008: \$21 million), gross cost before amortisation of \$26 million (2008: \$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 which are shown on page 81.

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. On 30 March 2009, \$150 million of this facility was extended to 31 March 2010. On 26 March 2010, the \$150 million facility was extended for an additional year to March 2011. At 31 December 2009, the facility was undrawn.

Undrawn facilities

\$ million	2009	2008
Revolving credit facility (within Kazakhmys Finance PLC)	150	200
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	60	79
	210	279

(b) Discontinued operations**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 to finance the repayment of external borrowings and intercompany balances due to Kazakhmys LLC, and to fund working capital. In June 2009 the facility was refinanced with a new €170 million facility for three years with a final maturity in June 2012. Interest is payable on the drawn balance at a rate of EURIBOR + 3.00%. The loan is secured over the inventories and receivables of MKM.

Undrawn facilities

\$ million	2009	2008
Revolving trade finance facility (within MKM)	86	23

30. TRADE AND OTHER PAYABLES

\$ million	2009	2008
Prepayment received for anticipated disposal of share in subsidiary	681	–
Trade payables	65	146
Salaries and related payables	53	56
Royalties and mineral extraction tax payable	44	2
Payments received in advance	39	8
Other taxes payable	24	51
Amounts payable to related parties	5	10
Other payables and accrued expenses	24	33
	935	306

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

\$ million	2009	2008
Profit before taxation from continuing operations	1,028	1,144
Profit before taxation from discontinued operations	(220)	(58)
Interest income	(9)	(23)
Interest expense	61	66
Depreciation and depletion	285	346
Amortisation	2	3
Share of profits from associate	(223)	(255)
Impairment losses	385	400
Unrealised foreign exchange loss	(195)	2
Gain on disposal of investments	–	(5)
Loss on disposal of property, plant and equipment	1	2
Operating cash flows before changes in working capital and provisions	1,115	1,622
Increase in inventories	(133)	(4)
Increase in prepayments and other current assets	(42)	(21)
(Increase)/decrease in trade and other receivables	(89)	91
Increase in employee benefits	19	3
Increase in provisions	27	7
Increase in trade and other payables	46	54
Cash flows from operations before interest, income taxes and dividends from associate	943	1,752

Non-cash transaction

As stated in note 25(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.

32. MOVEMENT IN NET (DEBT)/LIQUID FUNDS

\$ million	At 1 January 2009	Cash flow ¹	Attributable to discontinued operations	Net exchange translation	At 31 December 2009
Cash and cash equivalents	540	464	(42)	(59)	903
Current investments	32	31	–	(5)	58
Borrowings	(2,200)	396	157	(3)	(1,650)
Net debt	(1,628)	891	115	(67)	(689)

¹ Cash flow includes cash and cash equivalents acquired through business acquisitions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. MOVEMENT IN NET (DEBT)/LIQUID FUNDS CONTINUED

\$ 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)

¹ Cash flow includes cash and cash equivalents acquired through business acquisitions.

33. FINANCIAL RISK MANAGEMENT

The financial information disclosed in the tables relating to the year ended 31 December 2009 represents continuing operations only.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close cooperation with the Group's business divisions under oversight of a Treasury Committee, which is chaired by the Chief Financial Officer. The responsibilities of the Treasury Committee include the monitoring of financial risks, management of the Group's cash resources, debt funding programmes and capital structure, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury Policy has been approved by the Board and is periodically updated to reflect developments in the financial markets and the financial exposures facing the Group. The Treasury Policy covers specific areas of financial risk management, in particular, liquidity risk, credit risk, interest rate risk, foreign currency risk and commodity price risk. The Group's Treasury Committee and the Group's Internal Audit department monitor compliance with the Treasury Policy on a regular basis.

The Group's Treasury department prepares monthly treasury reports for senior management which monitor all major financial exposures and treasury activities undertaken by the Group. In addition, a treasury report is prepared for each Board meeting which includes a summary of the credit markets and their impact on the implementation of the Group's strategy, progress on the Group's financing initiatives and the significant financial exposures faced by the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents, current investments and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are controlled and managed centrally by the Group's Treasury department. Liquidity retained within Kazakhstan is only held for working capital purposes.

The Group's accounting policies with regard to financial instruments are detailed in note 3.

(a) Derivatives, financial instruments and risk management

The Group uses derivative financial instruments to manage certain exposures to fluctuations in commodity prices, interest rates and exchange rates. The Group's philosophy is generally not to hedge its core revenue streams. In periods of significant market volatility or uncertainty, the Group may use derivative instruments as a means of reducing volatility and any negative impact on its operating cash flows. Strict limits on the size and type of any derivative hedge transaction are laid down by the Board and subject to strict internal controls. The Group does not hold any speculative financial instruments.

In 2008 and 2009, in light of significant market volatility and disruption in the financial sector, the Group entered into a number of interest rate swap contracts to convert debt carried at floating rates into debt which is carried at fixed interest rates in order to reduce the volatility of finance costs. No such instruments have been entered into in respect of 2010 or future years.

During 2008, forward commodity contracts were used, in limited situations, to hedge against copper quotational period differences arising on the price fixations between purchases of copper cathode by Kazakhmys Sales Ltd from Kazakhmys LLC and sales of copper cathode by Kazakhmys Sales Ltd to end customers.

During 2009, the Group commenced a hedging programme which was intended to cover production from the higher cost mines in the Zhezkazgan region such that the viability of these mines was protected in the event of a decrease in the copper price below \$3,000 per tonne. The hedges covered 90 kt, or approximately 30% of the estimated copper production for 2009, and established a price protecting floor and a cap to the price receivable on the hedged copper sales. As a result of the recovery in copper prices, losses under this hedging programme amounted to \$129 million and have been recognised within other operating expenses (see note 7(e)). The hedging programme terminated in December 2009 and no positions remain outstanding in respect of 2010 or future years.

MKM uses natural hedging arising on back-to-back purchase and supply contracts to manage, to the fullest extent possible, its economic exposure to changes in the price of copper. In the event of any timing mis-match on the purchase and supply contracts, MKM uses commodity futures to manage its short-term exposure to changes in the price of copper. All commodity hedge contracts are for short-term duration (less than 12 months).

For cash flow hedges the pre-tax amount removed from equity during the year and included in the income statement is a loss of \$138 million (2008: gain of \$143 million). In the income statement \$129 million loss is included in other operating expenses (2008: \$143 million gain included in other operating income) and \$9 million loss is included in finance costs (2008: \$nil). As at 31 December 2009 there are no amounts retained in equity as all the cash flow hedges have matured.

(b) Categories of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities by categories are as follows:

\$ million	Notes	2009	2008
Loans and receivables ¹	22,23,24	1,118	810
Financial liabilities measured at amortised cost ²	28,29,30	(1,874)	(2,704)
Financial liabilities at fair value through profit or loss ³		–	(2)

¹ Loans and receivables comprise other non-current investments, trade and other receivables, current investments and cash and cash equivalents.

² Financial liabilities measured at amortised cost comprise borrowings, provision for cash payments (payments for licences, deferred consideration and other), trade and other payables (excluding payments received in advance and taxes payable that are non-financial instruments) and dividends payable by subsidiaries.

³ Financial liabilities at fair value through profit or loss comprise derivative financial instruments.

(c) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating company in currencies other than that company's functional currency. The functional currency of Kazakhmys LLC, Kazakhmys Power, Kazakhmys Gold and Kazakhmys Petroleum is the Kazakhstan tenge, with MKM having a Euro functional currency, Kazakhmys Services Ltd having a UK sterling functional currency, and the Company and the other entities within the Group having a US dollar functional currency. The currencies giving rise to this foreign currency risk are primarily the US dollar based revenues and certain costs, bank deposits, trade receivables and certain trade payables of Kazakhmys LLC, and the US dollar balances in respect of certain revenues, and trade receivables and payables of MKM. The Group generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

No foreign exchange hedge transactions were entered into during 2009 or 2008.

(i) Foreign currency exposure by company profile

The analysis in the table below of the net monetary assets and liabilities indicates the Group's exposure to currencies other than the functional currency of a company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2009 and 2008, these exposures were as follows:

\$ million	US dollar	UK sterling	Euro	KZT	Other
2009					
Company	n/a	7	–	–	–
Kazakhmys LLC	2,131	–	–	n/a	–
Kazakhmys Gold	21	–	(1)	n/a	–
Kazakhmys Petroleum	(14)	–	–	n/a	–
Other non-trading or holding companies	(54)	–	–	1	1
	2,084	7	(1)	1	1

\$ million	US dollar	UK sterling	Euro	KZT	Other
2008					
Company	n/a	–	–	–	–
MKM	23	7	n/a	–	1
Kazakhmys LLC	1,754	–	(3)	n/a	(3)
Kazakhmys Power	(267)	–	–	n/a	2
Kazakhmys Gold	6	–	–	n/a	–
Kazakhmys Petroleum	(25)	–	–	n/a	–
Other non-trading or holding companies	n/a	–	–	1	(3)
	1,491	7	(3)	1	(3)

(d) Foreign currency exposure by balance sheet account profile

The Group's exposure to foreign currency risk based on notional amounts is shown below:

\$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2009						
Trade and other receivables	2,105	7	–	–	–	2,112
Current investments	53	–	–	–	–	53
Cash and cash equivalents	121	–	1	1	1	124
Provisions for cash payments	(75)	–	–	–	–	(75)
Borrowings	(86)	–	–	–	–	(86)
Trade and other payables	(34)	–	(2)	–	–	(36)
	2,084	7	(1)	1	1	2,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. FINANCIAL RISK MANAGEMENT CONTINUED

\$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2008						
Trade and other receivables	1,682	7	–	–	1	1,690
Current investments	25	–	–	–	–	25
Cash and cash equivalents	141	–	–	1	1	143
Provisions for cash payments	(74)	–	–	–	–	(74)
Borrowings	(188)	–	–	–	–	(188)
Trade and other payables	(95)	–	(3)	–	(5)	(103)
	1,491	7	(3)	1	(3)	1,493

(e) Foreign currency sensitivity analysis

A 10% strengthening of the US dollar against the following currencies at 31 December would have increased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008:

\$ million	Impact on profit	
	2009	2008
KZT	215	134
Euro	–	2
UK sterling	1	–

A 10% weakening of US dollar against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(f) Commodity price risk

The Group is exposed to the effect of fluctuations in the price of copper, which is quoted in US dollars on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of copper prices in the future. The Group is also exposed, to a lesser degree, to the prices of other metals, including zinc, gold and silver, which are products produced by the Group as by-products to the copper production process. The Kazakhmys Power business is exposed to the effect of fluctuations in electricity tariffs that it is able to charge to customers.

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2009. This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time. A 10% increase/(decrease) of commodity prices would have increased/(decreased) profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular costs, remain constant. The analysis is performed on the same basis for 2008:

\$ million	Impact on profit	
	2009	2008
Copper	1	1
Other commodities	–	–

As explained in note 33(a) above, the Group used forward commodity contracts to hedge against quotational period differences arising on price fixations within the UK sales operation during 2008, and for 2009 the Group entered into a hedging programme to protect the viability of higher cost mines in the Zhezkazgan region in the event of a decrease in the copper price below \$3,000 per tonne. There were no commodity hedge contracts outstanding as at 31 December 2009 (2008: \$nil).

(g) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's interest rate management policy is to generally borrow and invest at floating rates of interest. In some circumstances, an element of fixed rate funding may be considered appropriate. Local market conditions in Kazakhstan dictate that borrowings are generally fixed in nature and as such, borrowings in Kazakhstan are generally short-term in nature and used for working capital purposes only. A limited amount of fixed rate hedging using interest rate swaps may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical levels.

At 31 December 2009, nil% (2008: 64%) of total debt was at a fixed rate and the balance was at floating rate. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

\$ million	At 31 December 2009			
	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Non-current investments	–	2	5	7
Trade and other receivables	–	–	150	150
Current investments	–	58	–	58
Cash and cash equivalents	245	616	42	903
Total financial assets	245	676	197	1,118
Financial liabilities				
Provisions for cash payments	–	75	–	75
Borrowings	1,650	–	–	1,650
Trade and other payables ¹	–	–	147	147
Dividend payable	–	–	2	2
Total financial liabilities	1,650	75	149	1,874

¹ Trade and other payables exclude payments received in advance and taxes payable that are non-financial instruments.

\$ million	At 31 December 2008			
	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Non-current investments	1	2	2	5
Trade and other receivables	–	–	233	233
Current investments	–	32	–	32
Cash and cash equivalents	243	246	51	540
Total financial assets	244	280	286	810
Financial liabilities				
Provisions for cash payments	–	239	18	257
Borrowings ¹	800	1,400	–	2,200
Trade and other payables ²	–	–	245	245
Derivative financial instruments	–	2	–	2
Dividend payable	–	–	2	2
Total financial liabilities	800	1,641	265	2,706

¹ Of the floating rate borrowings of \$2,200 million, \$1,400 million has been hedged using interest rate swap contracts from floating to fixed rate (see below).

² Trade and other payables exclude payments received in advance and taxes payable that are non-financial instruments.

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Considering the net debt position of the Group at 31 December 2009, any increase in interest rates would result in a net loss in the consolidated income statement, and any decrease in interest rates would result in a net gain. The effect on profit after tax of a 10% movement in US\$ LIBOR and EURIBOR rates, based on the year-end borrowings and with all other variables held constant, is estimated to be \$1.7 million (2008: \$1.7 million).

(h) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash and cash equivalents, current investments and derivative financial instruments are with approved counter-party banks and other financial institutions in accordance with the Group's Treasury Policy. Counterparties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Credit risk relating to trade receivables

The Group's major exposure to credit risk is in respect of trade receivables. Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

Customer credit risk is managed by each division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all major customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an on-going basis, and receivables that are neither past due nor impaired are considered of good credit quality.

Letters of credit are obtained where customer credit quality is not considered strong enough for open credit.

There were no material impairments of trade receivables as at 31 December 2009 or 2008. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

Within Kazakhmys Copper, cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are made under letters of credit which are obtained prior to delivery and transfer of title of the goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. FINANCIAL RISK MANAGEMENT CONTINUED

Payment from European and Chinese customers is subject to provisional pricing and then final pricing adjustments. Kazakhmys Copper is therefore exposed to the residual final pricing adjustment for each sales transaction although such amounts are not considered material.

Kazakhmys LLC also provides certain social services to municipal authorities in the communities in which it operates as part of its contractual obligations under its subsoil licences. For most receivable balances due from municipal authorities, full provision is recognised in light of past payment history.

Kazakhmys Gold has a single long standing customer with short payment terms which is agreed via an annual sales contract.

Kazakhmys Power receives cash upfront or has short payment terms depending on the nature of the customer.

MKM has put in place credit insurance for the majority of its sales and credit limits are set by the credit insurance company depending on the financial strength and location of each customer. For those sales where credit insurance is not available, short payment terms and regular dialogue with customers ensures credit risk is kept to a minimum.

As at 31 December 2009, 10 (2008: 10) customers accounted for 87% (2008: 34%) of the trade and other receivables balance of Kazakhmys Copper. By 24 March 2010, 81% (25 March 2009: 98%) of year-end balances due from these customers had been received in full.

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

\$ million	2009	2008
Europe	19	78
China	78	77
Kazakhstan	52	48
Other	1	30
	150	233

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

\$ million	2009		2008	
	Gross	Impairment	Gross	Impairment
Not past due	138	–	127	–
Past due 0-90 days	10	(2)	102	(2)
Past due 91-180 days	8	(5)	6	(2)
Past due 181-270 days	5	(4)	8	(6)
More than 270 days	41	(41)	34	(34)
	202	(52)	277	(44)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

\$ million	2009	2008
At 1 January	44	33
Charged to income statement	23	10
Attributable to discontinued transactions	3	4
Written off	(2)	(3)
Transfer to assets classified as held for sale	(10)	–
Net exchange adjustment	(6)	–
At 31 December	52	44

(iii) Credit risk related to financial instruments and cash deposits

Credit risk relating to the Group's other financial assets, comprising principally cash and cash equivalents, current investments and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's Treasury Committee in accordance with a Board approved Treasury Policy. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and within credit limits assigned to each counterparty. These limits are reviewed on a regular basis to take account of developments in financial markets and updated accordingly. The limits are set to minimise the concentration of risks and therefore mitigate any financial loss through potential counterparty failure.

No material exposure is considered to exist by virtue of the possible non performance of the counterparties to derivative financial instruments.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2009	2008
Non-current investments	7	5
Trade and other receivables	150	233
Current investments	58	32
Cash and cash equivalents	903	540
	1,118	810

(i) Liquidity risk

The Group maintains a balance between availability of funding and maximising investment return on its liquid resources through the use of liquid cash investments of varying maturities, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group in selecting appropriate maturities for its liquid cash investments.

In the event that bank term deposits in Kazakhstan need to be liquidated at short notice in advance of their contracted maturity date, the terms of these investments permit their immediate conversion to cash, and in some instances, the forfeiture of interest accrued to the date of liquidation.

The Group's policy is to centralise debt and surplus cash balances to the maximum extent possible.

Undrawn facilities

\$ million	2009	2008
Revolving credit facility (within Kazakhmys Finance PLC)	150	200
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	60	79
Credit lines	210	279

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2009						
Provisions for cash payments ¹	–	–	(17)	(38)	(26)	(81)
Borrowings ²	–	(137)	(410)	(1,149)	–	(1,696)
Trade and other payables ³	–	(147)	–	–	–	(147)
Derivative financial instruments	–	–	–	–	–	–
Dividend payable	(2)	–	–	–	–	(2)
	(2)	(284)	(427)	(1,187)	(26)	(1,926)
Non-current investments	–	–	–	7	–	7
Trade and other receivables	–	150	–	–	–	150
Current investments	–	–	58	–	–	58
Cash and cash equivalents	326	577	–	–	–	903
	326	727	58	7	–	1,118
	324	443	(369)	(1,180)	(26)	(808)

¹ Provisions for cash payments are presented on an undiscounted gross basis.

² Borrowings include expected future interest payments.

³ Trade and other payables exclude payments received in advance and taxes payable that are non-financial instruments.

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2008						
Provisions for cash payments ¹	–	(3)	(104)	(155)	(45)	(307)
Borrowings ²	–	(62)	(499)	(1,804)	–	(2,365)
Trade and other payables ³	–	(245)	–	–	–	(245)
Derivative financial instruments	–	–	(2)	–	–	(2)
Dividend payable	(2)	–	–	–	–	(2)
	(2)	(310)	(605)	(1,959)	(45)	(2,921)
Non-current investments	–	–	–	5	–	5
Trade and other receivables	–	233	–	–	–	233
Current investments	–	–	32	–	–	32
Cash and cash equivalents	496	44	–	–	–	540
	496	277	32	5	–	810
	494	(33)	(573)	(1,954)	(45)	(2,111)

¹ Provisions for cash payments are presented on an undiscounted gross basis.

² Borrowings include expected future interest payments.

³ Trade and other payables exclude payments received in advance and taxes payable that are non-financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. FINANCIAL RISK MANAGEMENT CONTINUED

(j) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

\$ million	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Other non-current investments	7	7	5	5
Trade and other receivables	150	150	233	231
Current investments	58	58	32	32
Cash and cash equivalents	903	903	540	540
Provisions for cash payments	(75)	(75)	(257)	(257)
Borrowings	(1,650)	(1,606)	(2,200)	(2,147)
Trade and other payables ¹	(147)	(147)	(245)	(243)
Derivative financial instruments	–	–	(2)	(2)
Dividend payable	(2)	(2)	(2)	(2)
	(756)	(712)	(1,896)	(1,843)

¹ Trade and other payables exclude payments received in advance and taxes payable that are non-financial instruments.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, current investments, trade and other receivables, trade and other payables and dividend payable approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- during 2008 and 2009, the Group entered into interest rate swaps with various bank counterparties. The fair value of interest rate swaps are estimated by discounting expected future cash flows using current market interest rates and the yield curve over the remaining term of the instrument;
- provisions for cash payments are discounted back to their present value; and
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities.

(k) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the commodity cycle and to maintain an optimal capital structure with a view to maximising returns to shareholders and benefits to other stakeholders by reducing the Group's cost of capital.

As a result of acquisitions made during 2008, the Group has moved into a net debt position from continuing operations of \$689 million as at 31 December 2009 (2008: \$1,628 million). Included within the debt facilities are financial covenants related to maximum borrowing levels (determined by reference to a Net Debt to EBITDA ratio) and minimum tangible net worth for which compliance certificates are produced. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. There are no covenants under negotiation at present.

At 31 December 2009, total capital employed (which comprises equity shareholders' funds, minority interests and borrowings) of the Group amounted to \$8,502 million, compared to \$9,697 million at 31 December 2008. Total capital employed is the measure of capital that is used by the Directors in managing capital.

34. COMMITMENTS AND CONTINGENCIES

(a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group. As of 31 December 2009 and 2008, the Group was not involved in any significant legal proceedings, including arbitration.

(b) Kazakhstan taxation contingencies

(i) Inherent uncertainties in interpreting tax legislation

The Group is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. Management's interpretation of tax legislation as applied to the transactions and activities of the Group may not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines which could have a material adverse effect on the Group's financial position and results of operations.

(ii) Status of tax audits

Kazakhmys Copper – corporate income tax

During 2006, Kazakhmys was subject to a corporate tax audit for the years 2003 to 2005. The tax computations for the years after 2005 remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Kazakhstan and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise.

Kazakhmys Copper – transfer pricing

Year ended 31 December 2008

During 2007, Kazakhmys LLC was subject to a transfer pricing audit for the years 2001 to 2005. In producing the tax audit act arising from the transfer pricing audit for 2001 to 2005, the tax authorities allowed for a 10% deviation from LME market prices, and also assumed that average LME prices for the month preceding the month when the bill of lading was issued were relevant for the purposes of transfer pricing rather than the quotation periods stipulated in the contracts that were used in determining revenues for accounting purposes. This same criteria has been applied to 2008 export sales and therefore management believes that Kazakhmys LLC does not bear the risk of additional tax exposures relating to 2008 export sales. Assuming the approach adopted by the tax authorities in future tax audits is consistent with that which has been applied in prior years, no tax provision has been provided for by Kazakhmys LLC in relation to transfer pricing on 2008 export sales. However, the risk remains that the Kazakhstan tax authorities may take a different approach at the time of a future tax audit, and seek to impose additional tax assessments for transfer pricing for the years 2006, 2007 and 2008.

Year ended 31 December 2009

New transfer pricing legislation came into force on 1 January 2009. This new legislation removed the 10% safe harbour provision which was permitted under the previous transfer pricing legislation and has been replaced by the concept of the 'arm's length principle'. However, this new legislation does not fully reflect the arm's length concept which forms the underlying basis of transfer pricing legislation within many OECD countries. Kazakhmys LLC has recognised a transfer pricing provision of \$28 million at 31 December 2009 based on management's interpretation of the new transfer pricing legislation and the prevailing status of discussions with the Kazakhstan tax authorities. The risk remains that the Kazakhstan tax authorities may take a different position with regards to the interpretation of the new transfer pricing legislation and the outcome of discussions with the Kazakhstan tax authorities may be materially different than management's expectations.

Kazakhmys Copper – excess profits tax

The issuance of the tax audit act following the tax audit performed in 2006 implicitly confirmed management's approach to excess profits tax for the years subject to audit. The cumulative nature of excess profits tax calculations may result in a further assessment of excess profits tax for the years already subject to audit if subsequent tax audits challenge the methodology adopted by Kazakhmys LLC. However, management believes the excess profits tax methodology adopted by Kazakhmys LLC is in compliance with legislation, and interpretations thereof, and has been applied for to the years subsequent to the period of the tax audit, i.e. 2006 to 2008. The Group has fully provided in its financial statements for all potential tax liabilities relating to application of excess profits tax.

New tax legislation came into force in Kazakhstan on 1 January 2009 which removed the tax stabilisation of subsoil use contracts and changed the excess profits tax methodology. Based on production and material flows for the year ended 31 December 2009 within Kazakhmys LLC, management's interpretation of the new tax legislation is that excess profits tax is no longer levied on Kazakhmys LLC's operations. Management's position is supported by discussions and correspondence with the governmental authorities. However, the risk remains that the Kazakhstan tax authorities may take a different position with regards to the interpretation of the new legislation and seek to impose excess profits tax on Kazakhmys LLC's operations for the years subsequent to 2008 at the time of a future tax audit.

(iii) Period for additional tax assessments

The tax authorities in Kazakhstan are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of excess profits tax, they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(iv) Possible additional tax liabilities

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Kazakhstan and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(c) UK taxation contingencies

(i) Status of tax audits

In 2008, the UK tax authorities agreed the 2005 tax computation for the Company. The enquiry window for the 2006 tax computation has now closed but the 2007 and 2008 tax computations remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in the UK and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise.

(ii) Transfer pricing

The Directors believes the Group is in substantial compliance with regards to UK transfer pricing legislation as an appropriate profit margin has been generated within the UK sales operation since its formation at the time of Listing to cover the transfer of risks and rewards from Kazakhstan to the UK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. COMMITMENTS AND CONTINGENCIES CONTINUED

(d) Insurance

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has purchased a catastrophic insurance programme in the London market to mitigate the effect of the loss or damage of certain of its assets located at its facilities and the resultant business interruption, although such a programme may not provide full cover in the event of a major loss. The Group does not have third party liability coverage in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(e) Environmental contingencies

Environmental regulations in Kazakhstan are continually evolving and new emissions legislation is expected to become effective from 2012. The outcome of the environmental regulations under proposal or any future environmental legislation cannot be reliably estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements, however recognise that any future changes in legislation may have a significant impact on the Group's results. The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 28), is based upon the estimation of the Group's specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

(f) Use of subsoil and exploration rights

In Kazakhstan, all subsoil reserves belong to the State, with the Ministry of Energy and Mineral Resources (the 'Ministry') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations. The current subsoil rights will expire at varying dates up to 2062.

(g) Other commitments

The table below sets out the Group's expenditure commitments in property, plant and equipment as at 31 December 2009 and 2008:

\$ million	2009	2008
Property, plant and equipment	196	298

The Group has capital expenditure commitments for the purchase of property, plant and equipment as well as commitments under its mining subsoil agreements and the petroleum exploration licence. Committed expenditure under these subsoil agreements relates to investments in community-related projects, and includes investments in social sphere assets, infrastructure and public utilities.

(h) Guarantee of employee loans

Kazakhmys LLC's employees are permitted to enter into loan arrangements with banks on normal commercial terms under which Kazakhmys LLC has guaranteed to deduct repayments from employees' remuneration in accordance with agreed schedules of repayment. The total value of this guarantee amounted to \$4 million as at 31 December 2009 (2008: \$5 million).

(i) Operating lease commitments

The operating lease expense for the year was \$1 million (2008: \$1 million). At 31 December 2009 and 2008, the Group had the following total commitments under non-cancellable operating leases:

\$ million	2009	2008
Within one year	1	1
After one year but not more than five years	6	5
More than five years	6	10
	13	16

(j) Discontinued operations – German taxation contingencies**(i) Status of tax audits**

In 2007 the German tax authorities finalised a tax audit of MKM for the years 1999 to 2002. The tax audit for the years from 2003 to 2005 is currently underway and the years 2006 to 2008 remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Germany and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise.

35. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period:

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Companies related to the Government				
2009	–	–	–	681
2008	–	–	–	–
Companies under trust management¹				
2009	16	7	41	2
2008	14	11	37	1
Other¹				
2009	2	29	27	3
2008	4	48	13	9

¹ A provision of \$43 million (2008: \$25 million) has been set against the amounts owed by companies under trust management (see note 22) and other companies (see note 23). The bad debt expense for the year in respect of related parties was \$23 million (2008: \$7 million).

(i) Government

Share issue

On 24 July 2008, the Company issued 80,286,050 ordinary shares of 20 pence each to the Government, thereby making the Government a 15% shareholder of the Company and a related party with effect from this date.

Sale of 50% of Ekibastuz GRES-1 LLP to Samruk

On 10 December 2009 it was announced that the Group had agreed to dispose 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk, an entity wholly owned and controlled by the Government of Kazakhstan, for consideration of \$681 million. Although the transaction completed on 26 February 2010, the Group received the consideration in December 2009 and it is included within trade and other payables (see note 30).

Other transactions

Throughout the normal course of business, the Group conducts transactions with entities controlled by the Government. The principal activities relate to the payment of electricity transmission fees, use of railway infrastructure and payments to tax authorities. Transactions between the Group and Government departments and agencies are considered to be related party transactions unless they meet all of the following criteria:

- they were done in the ordinary course of business of the Government department and/or company;
- there is no choice of suppliers; and
- they have terms and conditions (including prices, privileges, credit terms, regulations etc) that are consistently applied to all entities, public or private.

The Group did not have any non-arm's length or privileged transactions with entities controlled by the Government.

Dividend payment

The Government's share of the interim dividend paid by the Company on 24 October 2008 was \$11 million.

(ii) ENRC

In 2009 the Group received dividends of \$84 million from ENRC, the associated undertaking (2008: \$38 million).

(iii) Companies under trust management agreements

The Group operates a number of companies under trust management agreements with local and state authorities. The activities include heating distribution systems, road maintenance and aviation services. The purpose of these agreements is to provide public and social services without any material financial benefit for the Group. Transactions between the Group and these companies are conducted on an arm's length basis.

(iv) Other

Transactions with other companies primarily relate to the provision of goods and services, on an arm's length basis, with companies whose boards include members of senior management from the Group's subsidiaries.

During 2009 for commercial purposes, Kazakhmys LLC advanced amounts totalling \$25 million to Eduard Ogay, the Chief Executive of Kazakhmys LLC, who engaged third parties to negotiate with suppliers to ensure that competitive terms and pricing were being obtained for the benefit of Kazakhmys LLC. Until 31 December 2009, the third parties repaid \$5 million of the amounts advanced to Eduard Ogay, who has in turn repaid these amounts to Kazakhmys LLC, such that the amount outstanding at 31 December 2009 was \$20 million. As at 29 March 2010, all outstanding amounts had been repaid by Eduard Ogay to Kazakhmys LLC.

(b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. COMPANY NON-CURRENT INVESTMENTS

\$ million	2009	2008
Cost		
At 1 January	7,289	2,819
Additions	22	2,350
Acquisition of ENRC shares via share exchange	–	2,110
Capitalised issuance costs	–	10
At 31 December	7,311	7,289
Provision for impairment		
At 1 January	991	–
Charged to the income statement	39	991
At 31 December	1,030	991
Net book value	6,281	6,298

(i) Kazakhmys LLC

During 2008, a Group reorganisation took place such that the Company's investment in Kazakhmys LLC was transferred to an intermediate holding company through a share for share exchange. As at 31 December 2009, Kazakhmys LLC is indirectly held by the Company whose beneficial interest is 99.73% (2008: 99.73%).

(ii) ENRC

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 (7.66% of ENRC's issued share capital) 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 \$2,120 million, including issue costs of \$10 million.

At 31 December 2008, the carrying value of the Company's investment in ENRC was \$1,129 million reflecting the recoverable amount of the 7.66% interest in ENRC held at the Company level. This reflects an impairment loss of \$991 million being charged to the Company's income statement. The impairment arises due to the different IFRS accounting treatment at the Company level of the 7.66% interest in ENRC which is recorded as an investment at cost, compared to the Group's equity accounting treatment. The recoverable amount used in assessing the impairment charge is value in use, using a discounted cash flow model. The future cash flows are discounted using a pre-tax discount rate of 13%.

During 2009, a Group reorganisation took place such that the Company's investment in ENRC was transferred to an intermediate holding company through a share for share exchange.

(iii) Other investments

Balances within additions reflect investments in intermediate holding companies through which the Group's entities are held in MKM, Kazakhmys Power, Kazakhmys Gold, Kazakhmys Petroleum and associated capitalised acquisition costs. The Company acquired these investments in intermediate holding companies through share for share exchanges.

The impairment charge of \$39 million is in respect of the Company's investment in Kazakhmys Services Ltd a wholly owned subsidiary. The carrying value of the investment has been written down by \$39 million to the net asset value of Kazakhmys Services Ltd.

37. COMPANY TRADE AND OTHER RECEIVABLES

\$ million	2009	2008
Trade receivables	7	–
Amounts due from related parties	95	22
	102	22

38. COMPANY CAPITAL RESERVES

\$ million	Capital reserve	Capital redemption reserve	Total
At 1 January 2008	779	4	783
Purchase of Company's issued share capital	–	2	2
At 31 December 2008 and 2009	779	6	785

(i) Capital reserve

The capital reserve is a non-distributable reserve created when the shares issued pursuant to the share exchange agreements prior to the Company's listing were recorded at fair value. To the extent the Company receives dividends from Kazakhmys LLC's profits created in the period prior to the share exchange, the capital reserve is realised through a transfer to distributable retained earnings.

(ii) 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.

39. COMPANY INTERCOMPANY BORROWINGS

At 31 December 2009, intercompany borrowings of the Company include an amount of \$nil due to Kazakhmys Finance PLC, the Group's financing company (2008: \$2,046 million), which was advanced to the Company for the acquisition of the Kazakhmys Power business and incremental shares in ENRC and which has since been repaid. This amount is non-interest bearing and is repayable on demand. Intercompany borrowings of the Company also includes an amount of \$1,463 million due to Kazakhmys Sales Ltd, the Group's UK sales operations (2008: \$1,463 million), which was put in place following the novation of the previous loan payable to Kazakhmys LLC. This amount is non-interest bearing and is repayable on demand. Working capital balances owed to Kazakhmys Sales Ltd amounted to \$203 million (2008: \$37 million), and are non-interest bearing and repayable on demand.

40. COMPANY TRADE AND OTHER PAYABLES

\$ million	2009	2008
Payables to related parties	–	60
Salaries and related payables	3	2
Other payables and accrued expenses	1	1
	4	63

41. COMPANY MOVEMENT IN NET DEBT

\$ million	At 1 January 2009	Cash flow	At 31 December 2009
Cash and cash equivalents	137	(98)	39
Intercompany borrowings	(3,546)	1,880	(1,666)
Net debt	(3,409)	1,782	(1,627)

\$ million	At 1 January 2008	Cash flow	Non-cash movements ¹	At 31 December 2008
Cash and cash equivalents	134	3	–	137
Intercompany borrowings	(1,265)	(2,427)	146	(3,546)
Net debt	(1,131)	(2,424)	146	(3,409)

¹ Non-cash movements comprise \$208 million of dividends receivable from Kazakhmys LLC that were offset against the loan payable to Kazakhmys LLC less \$62 million of capitalised interest.

42. FINANCIAL RISK MANAGEMENT

The UK sales function was transferred to Kazakhmys Sales Ltd, a wholly owned subsidiary of the Company, on 1 January 2008 so the financial risks borne by the Company have significantly reduced since that date. The Company has a limited exposure to foreign currency, credit and interest rate risks and these are shown below. The Company has no exposure to commodity, liquidity or price risks.

(a) Foreign currency risk

The Company has transactional currency exposures. Such exposures arise from transactions in currencies other than that the Company's functional currency being the US dollar. Prior to the Group reorganisation in which the Company's interest in Kazakhmys LLC was transferred to an intermediate holding company, the primary currency giving rise to this foreign currency risk was the Kazakhstan tenge as a result of dividends receivable from Kazakhmys LLC within other operating income. The Company is also exposed, to a lesser degree, to corporate costs (included within trade and other receivables and trade and other payables) which are primarily denominated in UK sterling. The Company generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

Following the transfer of the UK sales function to Kazakhmys Sales Ltd on 1 January 2008 and the Group reorganisation in which the Company's interest in Kazakhmys LLC was transferred to an intermediate holding company in 2008, the Company does not have any significant foreign currency risks.

(b) Credit risk

The UK sales function was transferred to Kazakhmys Sales Ltd, a wholly owned subsidiary of the Company, on 1 January 2008 and therefore the Company no longer has any credit risk with regards to customers from that date. Any remaining credit risk for the Company relates to cash and cash equivalents. Balances within trade and other receivables mostly relate to amounts owed by Group undertakings resulting in reduced credit risk for these balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2009	2008
Trade and other receivables	102	22
Cash and cash equivalents	39	137
	141	159

The maximum exposure to credit risk for trade receivables at 31 December 2009 and 2008 by geographic areas was Europe \$102 million (2008: \$22 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

42. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Interest rate risk

The Company has limited balances subject to interest rate risk. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

At 31 December 2009			
\$ million	Floating rate	Non-interest bearing	Total
Financial assets			
Trade and other receivables	–	102	102
Cash and cash equivalents	39	–	39
Total financial assets	39	102	141
Financial liabilities			
Trade and other payables	–	(4)	(4)
Intercompany borrowings	–	(1,666)	(1,666)
Total financial liabilities	–	(1,670)	(1,670)

At 31 December 2008			
\$ million	Floating rate	Non-interest bearing	Total
Financial assets			
Trade and other receivables	–	22	22
Cash and cash equivalents	137	–	137
Total financial assets	137	22	159
Financial liabilities			
Trade and other payables	–	(63)	(63)
Intercompany borrowings	–	(3,546)	(3,546)
Total financial liabilities	–	(3,609)	(3,609)

All the Company's interest bearing monetary assets are denominated in US dollars and have a maturity of less than one year.

(d) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

\$ million	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Trade and other receivables	102	102	22	22
Cash and cash equivalents	39	39	137	137
Intercompany borrowings	(1,666)	(1,666)	(3,546)	(3,546)
Trade and other payables	(4)	(4)	(63)	(63)
	(1,529)	(1,529)	(3,450)	(3,450)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash and cash equivalents, trade and other receivables, trade and other payables and intercompany borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

(e) Capital management

The over-riding objectives of the Company's capital management policy are to safeguard and support the business as a going concern through the commodity cycle and to maintain an optimal capital structure with a view to maximising returns to shareholders and benefits to other stakeholders by reducing the Company's cost of capital.

43. COMPANY RELATED PARTY DISCLOSURES

(a) Transactions with related parties

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period.

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Kazakhmys Corporation LLC				
2009	–	–	–	–
2008	3	–	2	–
Kazakhmys Finance PLC				
2009	–	–	32	–
2008	–	–	–	2,046
Kazakhmys Sales Ltd				
2009	–	–	1	1,666
2008	–	–	20	1,550
Other Group companies¹				
2009	–	–	62	–
2008	–	–	–	10

¹ Includes Kazakhmys Services Ltd (2008: Kazakhmys Services Ltd and Kazakhmys Holding BV)

As explained in note 35, the Government became a related party on 24 July 2008. Transactions involving the Government are explained in note 35.

The Company received dividends of \$17 million from Kazakhmys Sales Ltd (2008: \$150 million), \$1,894 million from Kazakhmys Investments Ltd (2008: \$nil) and \$nil from Kazakhmys Eurasia BV (2008: \$94 million) during the year. In addition, the Company received dividends of \$19 million from ENRC (2008: \$12 million), the Group's associated undertaking, during the year.

(b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an on-going basis depending on the nature of the transaction.

44. SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and the principal subsidiaries listed in the following table:

	Principal activity	Operating division	Country of incorporation	Equity interest at 31 December 2009 %	Equity interest at 31 December 2008 %
Kazakhmys Corporation LLC	Mining and processing copper	Kazakhmys Copper	Kazakhstan	99.7 ¹	99.7 ¹
Kazakhmys Sales Ltd	Sales and logistics	Kazakhmys Copper	United Kingdom	100.0	100.0
Dank LLP	Mining and processing gold	Kazakhmys Gold	Kazakhstan	100.0 ¹	100.0 ¹
Charaltyn JSC	Exploration, mining and processing gold	Kazakhmys Gold	Kazakhstan	100.0 ¹	100.0 ¹
Andas Altyn LLP	Mining and processing gold	Kazakhmys Gold	Kazakhstan	100.0 ¹	100.0 ¹
Kazakhmys Gold Kyrgyzstan LLP	Gold mine development	Kazakhmys Gold	Kyrgyzstan	100.0 ¹	100.0 ¹
Kazakhmys Petroleum LLP	Oil and gas exploration	Kazakhmys Petroleum	Kazakhstan	100.0 ¹	100.0 ¹
Kazakhmys Finance PLC	Group financing	N/A	United Kingdom	100.0	100.0
MKM Mansfelder Kupfer und Messing GmbH ²	Copper processing	MKM	Germany	100.0 ¹	100.0 ¹
Ekibastuz GRES-1 LLP ²	Electric power generation	Kazakhmys Power	Kazakhstan	100.0 ¹	100.0 ¹
Maikuben-West LLP ²	Coal mining	Kazakhmys Power	Kazakhstan	100.0 ¹	100.0 ¹

¹ Indirectly held by the Company.

² Classified as held for sale (see note 5).

45. GUARANTEES

The Company is the guarantor for the following:

- as explained in note 29, the Company, together with Kazakhmys LLC and Kazakhmys Sales Ltd, is a guarantor of the \$1,662 million pre-export finance debt facility; and
- the operating lease on the Company's head office in London.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

46. EVENTS AFTER THE BALANCE SHEET DATE

(a) Sale of 50% of Ekibastuz GRES-1 LLP to Samruk

On 10 December 2009 it was announced that the Group had agreed to dispose 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk, an entity wholly owned and controlled by the Government of Kazakhstan, for consideration of \$681 million. The transaction completed on 26 February 2010 and the Group has retained a non-controlling interest of 50% in the entity which shall be accounted for as a joint venture after the date of completion.

The main governing board of the joint venture will be the supervisory board, which will comprise four members, two from the Group and two from Samruk. The supervisory board will make decisions (which require unanimity) in respect of areas such as personnel, investments, reporting, budgets, sales, procurement and loans. Management of Ekibastuz will initially be undertaken by a representative appointed by Kazakhmys for the first five years and will then rotate every five years. The appointment of the General Director and Audit Committee members will also rotate every five years. The Group and Samruk will each have 50% of the voting rights and no party will have overall control over Ekibastuz GRES-1 LLP.

**(b) China Development Bank funding
Summary of the transaction**

On 13 October 2009, the Group announced that it was in discussions with China Development Bank Corporation ('CDB') and Samruk regarding a potential loan facility. On 30 December 2009, Kazakhmys announced that it had secured up to \$2.7 billion loan facilities with CDB and Samruk, allocated from a \$3.0 billion financing line agreed between CDB and Samruk. Of the up to \$2.7 billion secured for Kazakhmys, facility agreements were signed for \$2.1 billion on 30 December 2009, and for a further \$200 million on 12 January 2010, for the development of Kazakhmys' projects at Bozymchak and Bozshakol and other development projects, with the balance of \$400 million remaining available over the next three years. In the event Samruk is unable to source financing for the Moynak hydro-electric plant then \$100 million of the \$400 million may be made available for the Moynak plant reducing the funds available to Kazakhmys to \$300 million. Samruk has separately signed an agreement for \$300 million of the \$3.0 billion to be used elsewhere and not for the benefit of the Group. As part of this financing package, the Company, along with a subsidiary of Samruk, provided a guarantee in favour of CDB in respect of Samruk's obligations under the \$3.0 billion financing line, including up to 85% of the \$300 million which was not on-lent for the benefit of the Group, which could increase to 85% of \$400 million in the event that \$100 million is lent for the Moynak plant.

The financing arrangements with CDB and Samruk were agreed on competitive terms, particularly given the prevailing market conditions and the difficulty experienced by CIS companies in accessing credit. Under the terms of the facility agreements, Kazakhmys secured a significant amount of funds on flexible and long-dated terms which will be used to develop Kazakhmys' growth projects.

Related party transaction

Samruk is an entity wholly owned and controlled by the Government of Kazakhstan, the ultimate owner and controller of a 15% stake in the Company. The transaction therefore constitutes a 'related party transaction' for the purposes of the Listing Rules. Due to the size of the up to \$340 million guarantee liability, the UK Listing Authority confirmed on 1 March 2010 that the transaction falls within the modified requirements for a 'smaller related party transaction' set out in Listing Rule 11.1.10.

Details of the transaction

The transaction consists of a two-tier structure, with loans from CDB to Samruk and 'back-to-back' arrangements between Samruk and the Company. Samruk has signed facility agreements with Kazakhmys Finance PLC ('Kazakhmys Finance'), a wholly owned subsidiary of the Company, pursuant to which Samruk will lend \$2.3 billion of the up to \$2.7 billion loan facility lent to it by CDB. It is intended that the remaining up to \$400 million will be lent by CDB to Samruk and on-lent by Samruk to Kazakhmys Finance over the next three years for funding the development of the Group's projects approved by CDB and Samruk, which could decrease to \$300 million if \$100 million is lent for the Moynak plant.

The agreements between Samruk and Kazakhmys Finance operate 'back-to-back' with the agreements between CDB and Samruk, such that any payment (both interest and principal) by Kazakhmys Finance to Samruk will result in a corresponding payment by Samruk to CDB. Other relevant terms, such as the period during which the loans are available and the termination dates of the agreements, also correspond. The funds are available for drawing anytime within a three year period and once drawn will attract interest semi-annually at an annualised rate of US\$ LIBOR plus 4.8%. The loans have a final maturity of between 12 and 15 years from the first drawdown and repayment of capital commences from the end of the third year following the first drawdown.

As part of the financing package, the Company and JSC Kazakhtelecom ('Kazakhtel'), a subsidiary of Samruk, have provided a guarantee to CDB for a maximum of \$2.0 billion of the \$3.0 billion of loans made and to be made by CDB to Samruk (the 'Guarantee'). The Company's liability under the Guarantee is capped at \$1.7 billion of principal plus 85% of any interest and any other duly payable costs and expenses. Any payments under the Guarantee will be netted off against payments to be made by Kazakhmys Finance under the loan agreements between it and Samruk. As the Guarantee is several and covers the separate \$300 million loan made by CDB to Samruk (but not lent on for the benefit of the Group), the Company will be liable as to 85% of that amount (i.e. up to \$255 million) if Samruk fails to make a payment due under that loan to CDB. In addition, should Samruk not secure \$100 million for its Moynak hydro-electric plant by 31 March 2010, then the Guarantee will increase by 85% of this amount, to \$340 million. Furthermore, the Company has granted a separate \$2.7 billion parent company guarantee to Samruk, pursuant to which the Company guarantees repayment of all amounts lent by Samruk to Kazakhmys Finance, as is typical in such corporate loan facilities.

The guarantees under this facility took effect on 1 March 2010 following receipt of confirmation from the UK Listing Authority. The first draw down under the facility for \$300 million was made on 17 March 2010, with \$100 million of the funds being for the Bozymchak project in Kyrgyzstan and \$200 million of the funds being for the development of the Group's projects, other than Bozymchak and Bozshakol.

(c) Tenge bond

On 29 January 2010 the Group completed its debut bond issue on the Kazakhstan Stock Exchange. The bond, with a total value of 10 billion tenge (approximately \$67 million), was issued by Ekibastuz GRES-1 LLP, for general corporate purposes, including financing the future capital expenditure programme in the Ekibastuz GRES-1 power plant. The bond has a coupon of 12% and will mature in five years.

(d) Revolving credit facilities

On 11 March 2010, Kazakhmys Finance PLC signed a one year \$100 million revolving credit facility with a maturity date in March 2011.

On 26 March 2010, Kazakhmys Finance PLC signed an agreement to extend the \$150 million revolving credit facility for an additional year to March 2011.

(e) Post year-end dividend

The Directors recommend a final ordinary dividend in respect of the year ended 31 December 2009 of 9.0 US cents per share. Subject to approval of shareholders at the Annual General Meeting to be held on 14 May 2010, this dividend shall be paid on 18 May 2010.

CONSOLIDATED FIVE YEAR SUMMARY

Year ended 31 December 2009

\$ million (unless otherwise stated)	2009	2008	2007	2006	2005
Results					
Revenues ¹	2,404	3,276	5,256	5,047	2,598
Profit before taxation and finance items ¹	772	1,187	2,048	2,072	843
Profit before taxation ¹	1,028	1,144	2,026	2,168	848
(Loss)/profit for the year from discontinued operations	(214)	90	–	–	–
Profit attributable to owners of the Company	554	909	1,416	1,400	539
Assets employed					
Non-current assets	6,408	8,751	5,498	1,993	1,771
Current assets	3,555	1,903	1,856	3,127	1,510
Non-current liabilities	(1,281)	(2,008)	(516)	(658)	(290)
Long-term provisions	(95)	(198)	(98)	(57)	(45)
Current liabilities	(1,992)	(951)	(307)	(514)	(320)
Net assets	6,595	7,497	6,433	3,892	2,626
Financed by					
Equity	6,582	7,477	6,419	3,860	2,600
Minority interests	13	20	14	32	26
	6,595	7,497	6,433	3,892	2,626
Key statistics					
Group EBITDA	1,290	1,674	2,312	2,297	1,062
Group EBITDA excluding special items	1,634	2,056	2,336	2,308	1,074
Underlying Profit	602	1,112	1,409	1,403	550
Free Cash Flow	579	715	895	1,327	450
Return on Capital Employed (%)	11.2	21.2	31.7	60.5	36.7
EPS – basic and diluted (\$)	1.04	1.85	3.04	2.99	1.29
EPS based on Underlying Profit (\$)	1.13	2.27	3.02	3.00	1.31
Dividends per Share (US cents)	–	41.4	89.3	48.8	40.0
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	72	116	33	9	34

¹ From continuing operations only for 2009 and 2008.

PRODUCTION AND SALES FIGURES

1. SUMMARY OF SIGNIFICANT PRODUCTION AND SALES FIGURES

kt (unless otherwise stated)	2009	2008
Kazakhmys Copper		
Ore mined	32,409	35,675
Copper content in ore mined (%)	1.18	1.26
Copper cathode production:		
From own concentrate	298	340
From purchased concentrate	6	38
Total copper cathodes produced	304	378
Total copper cathodes equivalent production²	326	381
Total copper cathodes equivalent sales	341	388
MKM		
Wire sales	132	153
Flat sales	66	74
Tubes and bars sales	39	46
Total MKM sales	237	273
Kazakhmys Gold		
Ore extraction	1,564	2,014
Gold ore grade (g/t)	1.39	1.50
Total gold doré produced (ktr.oz)	46.8	55.7
Total gold doré sold (ktr.oz)	46.8	55.2
Kazakhmys Power¹		
Electricity power generation sales (GWh)	9,737	5,774

¹ Kazakhmys Power was acquired on 29 May 2008.

² Includes copper sold in concentrate and cathode converted into rod.

2. KAZAKHMYC COPPER

(a) Metal mining¹

	Ore mined		Copper		Zinc		Gold		Silver	
	2009 kt	2008 kt	2009 %	2008 %	2009 %	2008 %	2009 g/t	2008 g/t	2009 g/t	2008 g/t
Zhezkazgan Complex										
North	3,391	3,746	0.75	0.76	–	–	–	–	11.26	10.08
South	5,272	3,311	0.69	0.64	–	–	–	–	18.54	14.46
Stepnoy	3,334	2,940	0.82	0.82	–	–	–	–	11.83	8.79
East	5,143	5,188	0.66	0.78	–	–	–	–	19.31	17.95
West	69	2,252	0.72	0.51	–	–	–	–	17.01	15.15
Annensky	3,295	3,407	0.74	0.87	–	–	–	–	19.70	18.35
Zhomart	3,275	3,280	1.80	1.39	–	–	–	–	8.41	8.44
Total Zhezkazgan Complex	23,779	24,124	0.87	0.84	–	–	–	–	15.49	13.63
Balkhash Complex										
Konyrat	–	874	–	0.29	–	–	–	–	–	0.71
Shatyrkul	545	371	2.26	2.48	–	–	0.39	0.44	2.30	2.21
Sayak I and Sayak III	1,731	1,753	1.02	1.10	–	–	0.33	0.38	5.13	5.34
Total Balkhash Complex	2,276	2,998	1.32	1.03	–	–	0.34	0.39	4.45	3.60
East Region										
Orlovsky	1,621	1,528	4.41	4.99	4.74	4.51	0.96	0.98	63.50	59.35
Belousovsky	–	211	–	1.02	–	1.77	–	0.35	–	33.73
Irtysky	480	481	1.51	1.41	3.63	3.58	0.39	0.37	60.35	54.63
Nikolayevsky	556	574	1.73	1.60	2.45	3.71	0.26	0.34	23.75	36.22
Yubileyno-Snegirikhinsky	603	538	3.26	3.15	2.45	3.15	0.40	0.54	27.28	37.70
Artemyevsky	1,198	1,548	1.72	1.68	5.19	5.09	1.11	1.12	96.93	102.06
Total East Region	4,458	4,880	2.89	2.82	4.15	4.24	0.78	0.81	62.30	66.22
Karaganda Region										
Abyz	167	436	1.60	1.70	4.27	3.19	5.64	3.78	49.67	41.90
Akbastau	–	2,363	–	2.50	–	0.63	–	0.75	–	23.51
Nurkazgan	1,729	575	0.85	0.65	–	–	0.28	0.39	2.29	2.38
Kosmurun	–	299	–	2.73	–	3.93	–	2.09	–	43.55
Total Karaganda Region	1,896	3,673	0.91	2.13	4.27	1.31	0.75	1.16	6.45	24.02
Total Kazakhmys Copper	32,409	35,675	1.18	1.26	4.15	3.10	0.66	0.85	20.62	21.05

¹ Totals only relate to producing mines.

(b) Coal mining

	Coal mined		Waste stripped		Strip ratio	
	2009 kt	2008 kt	2009 kbcm	2008 kbcm	2009 bcm:t	2008 bcm:t
Molodezhny	6,714	6,704	12,795	12,796	1.91	1.91
Kuu-Chekinsky	803	801	2,974	4,401	3.70	5.49
Total Kazakhmys Copper	7,517	7,505	15,769	17,197	2.10	2.29

PRODUCTION AND SALES FIGURES CONTINUED

(c) Copper processing

	Copper concentrate produced		Copper in concentrate	
	2009 kt	2008 kt	2009 %	2008 %
Zhezkazgan Complex				
Zhezkazgan No.1	223	202	39.5	37.7
Zhezkazgan No.2	181	191	39.5	38.1
Satpayev	88	101	25.1	27.0
Total Zhezkazgan Complex	492	494	36.9	35.7
Balkhash Complex				
Balkhash	207	267	18.2	14.5
Total Balkhash Complex	207	267	18.2	14.5
East Region				
Orlovsky	340	343	18.9	20.2
Belousovsky	84	24	15.9	15.8
Irtysky	35	33	17.9	16.9
Nikolayevsky	136	184	17.9	17.5
Total East Region	595	584	18.2	19.0
Karaganda Region				
Karagaily (Abyz)	184	10	4.3	7.3
Karagaily (Akbastau)	14	165	9.9	15.1
Karagaily (Kosmurun)	8	26	3.8	10.4
Nurkazgan (Akbastau)	4	23	17.4	20.1
Nurkazgan (Nurkazgan)	63	29	19.8	18.8
Total Karaganda Region	273	253	8.3	15.2
Own copper concentrate processed by third party	33	25	25.7	26.9
Total Kazakhmys Copper (own concentrate)	1,600	1,623	22.4	22.8
Purchased concentrate	8	105	25.5	27.5
Total Kazakhmys Copper (own and purchased concentrate)	1,608	1,728	22.4	23.1

(d) Zinc and precious metals processing

	Zinc concentrate produced		Zinc in concentrate			Silver ¹		Gold ¹
	2009 kt	2008 kt	2009 %	2008 %	2009 g/t	2008 g/t	2009 g/t	2008 g/t
Zhezkazgan Complex								
Zhezkazgan No.1	–	–	–	–	385.0	490.3	–	–
Zhezkazgan No.2	–	–	–	–	989.0	670.8	–	–
Satpayev	–	–	–	–	663.1	596.8	–	–
Total Zhezkazgan Complex	–	–	–	–	657.4	581.9	–	–
Balkhash Complex								
Balkhash	–	–	–	–	56.2	41.5	38.4	2.6
Total Balkhash Complex	–	–	–	–	56.2	41.5	38.4	2.6
East Region								
Orlovsky	121	109	45.0	44.9	145.3	113.4	1.7	1.4
Belousovsky	11	10	37.9	36.9	97.4	186.0	1.5	2.6
Irtysky	25	24	45.0	40.7	685.6	626.6	2.9	2.6
Nikolayevsky	67	86	42.2	38.6	223.3	200.8	2.2	2.6
Artemyevsky (KazZinc)	86	80	51.3	51.7	1,706.7³	2,395.7 ³	11.6³	22.3 ³
Total East Region	310	309	43.8²	41.8 ²	187.8²	172.4 ²	1.8²	1.9 ²
Karaganda Region								
Karagaily	18	2	40.7	24.3	92.4	106.0	9.0	3.2
Nurkazgan	–	–	–	–	44.7	84.3	5.4	4.7
Total Karaganda Region	18	2	40.7	24.3	80.6	101.5	8.1	3.5
Total Kazakhmys Copper	328	311	45.6	44.2	331.0	299.3	3.9	2.0

¹ Grade in grammes per tonne of copper concentrate.² Production only from own concentrators within East Region.³ Includes gold and silver content in gravity concentrate toll processed by KazZinc from Artemyevsky ore.

PRODUCTION AND SALES FIGURES CONTINUED

(e) Copper cathodes production

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2009 kt	2008 kt	2009 %	2008 %	2009 kt	2008 kt
Zhezkazgan Complex						
Own concentrate	336	563	32.6	31.5	105	180
Purchased concentrate	–	3	–	38.6	–	1
Other ¹	–	157	–	5.0	–	–
Total Zhezkazgan Complex	336	723	32.6	25.8	105	181
Balkhash Complex						
Own concentrate	1,242	1,051	18.8	18.0	193	160
Purchased concentrate	5	112	25.7	27.4	6	37
Other ¹	1	56	5.8	2.3	–	–
Total Balkhash Complex	1,248	1,219	18.9	18.2	199	197
Total Kazakhmys Copper (excluding tolling)	1,584	1,942	21.8	21.0	304	378
Tolling	70	–	0.2	–	–	–
Total Kazakhmys Copper (including tolling)	1,654	1,942	20.9	21.0	304	378

¹ Includes materials (slag, scrap, etc.) and ore used directly in smelting process reprocessed at both the Zhezkazgan and Balkhash Complexes.

(f) Copper rod and acid production

	Copper rod		Acid production	
	2009 kt	2008 kt	2009 kt	2008 kt
Total Kazakhmys Copper (Zhezkazgan Complex)	10	48	911	528

(g) Zinc metal production

	Zinc concentrate smelted		Zinc in concentrate		Zinc metal	
	2009 kt	2008 kt	2009 %	2008 %	2009 kt	2008 kt
Total Kazakhmys Copper (Balkhash Complex)	14	151	36.0	40.0	9	48

(h) Precious metal production

	Silver		Gold	
	2009 koz	2008 koz	2009 koz	2008 koz
Kazakhmys Copper	16,894	16,710	135	124
Tolling	5	6	10	5
Total Kazakhmys Copper (including tolling)	16,899	16,716	145	129

(i) Other production

	2009	2008
Electricity power generation (GWh)	6,199	5,910
Heating power (KGcal)	4,567	4,512
Enamel wire (t)	1,198	989
Lead dust (t)	12,068	10,084

(j) Sales

	2009		2008	
	kt ¹	\$ million	kt ¹	\$ million
Copper cathode	311	1,563	338	2,272
Copper rod	8	41	47	314
Copper concentrate (cathode equivalent)	22	107	3	19
Total copper cathodes equivalent sales	341	1,711	388	2,605
Zinc metal in concentrate	135	127	98	61
Zinc metal	17	19	49	88
Silver (koz)	16,397	251	17,140	251
Gold (koz)	132	127	124	109

¹ Kilotonnes (unless otherwise stated).

(k) Average realised prices

	2009	2008
Copper (\$/t)	5,024	6,714
Zinc (\$/t)	1,112	1,787
Silver (\$/oz)	14.60	14.66
Gold (\$/oz)	961	878

3. MKM – PRODUCTION AND SALES

	2009		2008	
	Production kt	Sales kt	Production kt	Sales kt
Wire rod	102	100	110	110
Drawn wire	32	32	43	43
Total wire	134	132	153	153
Pre-rolled	5	5	4	4
Sheets	9	14	18	19
Strips	52	47	52	51
Total flat	66	66	74	74
Tubes	15	15	19	19
Bars	24	24	27	27
Total tubes and bars	39	39	46	46
Total MKM	239	237	273	273

4. KAZAKHMYS GOLD – PRODUCTION AND SALES

	2009	2008
Ore extraction (kt)	1,564	2,014
Gold ore grade (g/t)	1.39	1.50
Gold precipitation (koz)	46.1	56.9
Gold doré production (koz)	46.8	55.7
Silver production (koz)	43.7	41.9
Gold doré sales (koz)	46.8	55.2

5. KAZAKHMYS POWER – PRODUCTION AND SALES

	2009	June – December ¹ 2008
Power		
Electricity power generation (GWh)	10,319	6,126
Electricity power sales from own generation (GWh)	9,737	5,774
Realised tariff prices (Tenge/kWh)	3.19	2.42
Coal		
Coal production (kt)	3,688	2,170

¹ Kazakhmys Power was acquired on 29 May 2008.

MINING RESERVES AND RESOURCES

RESERVES AND RESOURCES ESTIMATION METHODS

Kazakhmys Copper

The Republic of Kazakhstan has incorporated by law the classification system and estimation methods for reserves and resources established by the Former Soviet Union ('FSU') and later revised in 1981. In practice, this means that the statements of reserves and resources developed by Kazakhmys and the mining plans to which they relate must be submitted for approval to the corresponding committees of the Ministry of Energy and Mineral Resources for which adherence to the standardised national system of reserves and resources estimate on is mandatory.

As part of the exploitation licence for each mineral deposit, a set of Conditions for Estimation of Reserves ('Conditions') were prepared by the corresponding national design institute and were approved within the national (formerly Soviet) State Plan. The Conditions apply a well-defined process of classifying the specific deposit into one of five major deposit categories, subject to which, the principles for exploration and classification of reserves and resources have been established. The Conditions for each deposit specify the method of computation of reserve blocks, the minimum thickness for exploitation of the ore body and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties.

Reserves and resources have been estimated by Kazakhmys LLC according to the FSU 'Classification and Estimation Methods for Reserves and Resources'. It is apparent that there is now more scope than previously for flexibility and discussion with state authorities with respect to ore reserve estimation methods. This has been reflected in the continuing steps taken by Kazakhmys LLC to prepare the records and reserves development plans for the Zhezkazgan mines as computer-aided-design (CAD) files and to use these as the basis for revised estimation of reserves volumes and to support improved estimation of ore grades. IMC recognises this as an important step to achieve verifiable and internally consistent estimates.

IMC has reviewed the reserves and resources statements of Kazakhmys LLC and has restated the reserves and resources in accordance with the criteria required to meet JORC standards. As a general rule, in situ tonnages quoted as balance reserves under the national system, and which meet criteria for categories of confidence and which can be considered to have the potential for future economic extraction, are assessed as resources. The Kazakhmys LLC internal reporting system derives from these resources a category designated as commercial reserves, on which production planning is based, estimated only from 'active' resources to which modifying factors for losses and dilution are applied. These estimates form the basis for the process of restatement of reserves in accordance with JORC compliant criteria. All reserves quoted in the following tables are discounted for ore losses and dilution. Resources are not discounted for losses and dilution and are inclusive of reserves. All figures in reserves and resources are in metric tonnes and are dated 31 December 2009.

Kazakhmys Gold

Following international convention, the Kazakhmys Gold resources reported in this document are in situ estimates, while the reserves make due allowance for mining recovery and dilution, based on actual operational experience in 2009 or assumptions made in feasibility studies. Reserves are contained within the resources.

Kazakhmys Power

The resources and reserves were calculated on the basis of the following set of parameters: maximum ash content of 40% and minimum coal seam thickness of 2 metres with a specific gravity of 1.3 and a maximum dirt parting of 1 metre, which are excluded from the calculations. The dilution and losses are 1.96% and 2.15% respectively with an average stripping ratio of 4:1.

KAZAKHMYC COPPER

Summary of metal reserves

Region		Reserves ¹ kt		Copper %		Zinc %		Gold g/t		Silver g/t		Lead %	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Zhezkazgan Complex	Proved	207,337	226,602	0.73	0.74	–	–	–	–	9.45	11.78	–	–
	Probable	188,588	260,609	1.02	0.94	–	–	–	–	9.87	12.41	–	–
	Total	395,925	487,211	0.87	0.85	–	–	–	–	9.65	12.00	–	–
Balkhash Complex	Proved	348,811	507,536	0.42	0.50	–	–	0.03	0.10	0.91	3.26	–	–
	Probable	1,463,012	1,492,720	0.37	0.38	–	–	0.03	0.03	0.99	1.13	–	–
	Total	1,811,823	2,000,256	0.38	0.41	–	–	0.03	0.06	0.97	1.62	–	–
East Region	Proved	17,768	19,917	2.08	2.45	5.17	5.15	0.93	0.94	74.45	77.27	1.20	1.25
	Probable	58,996	61,230	2.51	2.61	4.14	4.22	0.69	0.75	54.52	55.24	1.05	1.02
	Total	76,764	81,147	2.41	2.58	4.38	4.44	0.75	0.79	59.13	62.91	1.09	1.10
Karaganda Region	Proved	238,493	79,190	0.75	0.92	0.04	0.10	0.28	0.30	6.00	1.06	–	–
	Probable	204,934	177,464	0.89	0.92	0.27	0.27	0.46	0.44	4.99	3.95	–	–
	Total	443,427	256,654	0.82	0.92	0.14	0.22	0.36	0.40	5.53	3.07	–	–
Total Kazakhmys Copper	Proved	812,409	833,245	0.63	0.65	0.12	0.13	0.12	0.11	3.78	7.14	0.03	0.03
	Probable	1,915,530	1,992,023	0.55	0.57	0.16	0.15	0.09	0.09	2.97	4.61	0.03	0.03
	Total	2,727,939	2,825,268	0.58	0.59	0.15	0.15	0.10	0.10	4.61	5.30	0.03	0.03
Analysed as: Operating mines	Proved	363,171	384,007	0.79	0.82	0.28	0.29	0.14	0.11	10.17	11.28	0.06	0.06
	Probable	564,685	641,178	1.06	1.04	0.53	0.48	0.30	0.20	12.96	12.02	0.11	0.10
	Total	927,856	1,025,185	0.95	0.96	0.43	0.41	0.24	0.18	11.87	11.58	0.09	0.09
Development projects ²	Proved	449,238	449,238	0.51	0.51	–	–	0.09	0.11	2.98	3.59	–	–
	Probable	1,350,845	1,350,845	0.35	0.35	–	–	0.01	0.03	0.17	1.10	–	–
	Total	1,800,083	1,800,083	0.39	0.38	–	–	0.03	0.05	0.87	1.72	–	–

¹ Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

² Development projects relate to Aktogay, Bozshakol, Aidarlay, Zhaisan and Anissimov Kluych. Mine extensions are included within the original ore body as part of operating mines.

MINING RESERVES AND RESOURCES CONTINUED

Summary of metal resources

Region		Resources ¹ kt		Copper %		Zinc %		Gold ² g/t		Silver ² g/t		Lead %	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Zhezkazgan Complex	Measured	260,492	255,909	0.82	0.84	–	–	–	–	–	–	–	–
	Indicated	306,329	367,567	1.09	1.04	–	–	–	–	–	–	–	–
	Total	566,821	623,476	0.97	0.96	–	–	–	–	12.68	14.00	–	–
	Inferred	43,067	43,067	1.26	1.26	–	–	–	–	15.98	–	–	–
Balkhash Complex	Measured	332,626	482,819	0.46	0.54	–	–	–	–	–	–	–	–
	Indicated	1,399,543	1,427,347	0.42	0.43	–	–	–	–	–	–	–	–
	Total	1,732,169	1,910,166	0.43	0.46	–	–	0.04	0.10	1.09	2.00	–	–
	Inferred	1,539,200	1,539,200	0.40	0.40	–	–	–	–	1.33	1.00	–	–
East Region	Measured	16,406	18,473	2.39	2.83	5.89	5.77	1.11	1.06	86.66	85.22	1.36	1.43
	Indicated	59,360	53,507	2.87	3.17	4.66	5.03	0.83	0.91	61.24	68.87	1.18	1.26
	Total	75,766	71,980	2.77	3.08	4.93	5.22	0.89	0.95	66.75	73.07	1.22	1.30
	Inferred	11,746	11,340	1.19	1.13	3.76	3.71	0.39	0.40	57.71	58.70	0.65	0.65
Karaganda Region	Measured	221,270	70,412	0.86	1.15	0.03	0.10	0.32	0.40	6.57	1.07	–	–
	Indicated	186,215	162,549	1.05	1.11	0.30	0.35	0.53	0.57	5.45	4.89	–	–
	Total	407,485	232,961	0.95	1.12	0.15	0.27	0.41	0.55	6.06	3.76	–	–
	Inferred	9,136	9,136	1.03	1.03	0.78	0.78	1.20	1.20	11.08	11.08	–	–
Total Kazakhmys Copper	Measured	830,794	827,613	0.72	0.74	0.13	0.14	0.12	0.12	7.74	8.20	0.03	0.03
	Indicated	1,951,447	2,010,970	0.66	0.67	0.17	0.16	0.11	0.10	5.21	5.64	0.04	0.03
	Total	2,782,241	2,838,583	0.68	0.69	0.16	0.15	0.11	0.11	5.97	6.39	0.03	0.03
	Inferred	1,603,149	1,602,743	0.43	0.43	0.03	0.03	0.02	0.02	2.19	2.32	0.01	–
Analysed as:													
Operating mines	Measured	405,380	402,199	0.89	0.94	0.26	0.28	0.12	0.12	11.76	12.73	0.06	0.07
	Indicated	669,193	731,760	1.19	1.18	0.47	0.44	0.24	0.23	12.75	13.42	0.10	0.09
	Total	1,074,573	1,133,959	1.08	1.09	0.39	0.39	0.20	0.20	12.4	13.18	0.08	0.08
	Inferred	63,543	63,543	1.20	1.23	0.77	0.77	0.24	0.24	22.89	23.90	0.12	0.12
Development projects ³	Measured	425,414	425,414	0.72	0.56	–	–	0.12	0.12	3.91	3.91	–	–
	Indicated	1,282,254	1,279,210	0.66	0.38	–	–	0.04	0.04	1.28	1.19	–	–
	Total	1,707,668	1,704,624	0.68	0.42	–	–	0.06	0.06	1.93	1.87	–	–
	Inferred	1,539,606	1,539,200	0.43	0.40	–	–	0.01	0.01	1.34	1.43	–	–

¹ Resources include undiscounted reserves. No ore loss or dilution has been included.

² Silver and gold values for the Zhezkazgan Complex and Balkhash Complex are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

³ Development projects relate to Aktogay, Bozshakol, Aidarlay, Zhaisan and Anissimov Kluych. Mine extensions are included within the original ore body as part of operating mines.

The total proven and probable reserves of Kazakhmys Copper have decreased during 2009 to a total of 2,728 MT, as compared with 2,825 MT at 31 December 2008. This decrease in total proven and probable reserves amounts to 97 MT. The draw-down of reserves due to production during 2009 was estimated to be 29 MT.

The total measured and indicated resources of Kazakhmys Copper have decreased during 2009 to a total of 2,782 MT, as compared with 2,839 MT at 31 December 2008. This decrease in total measured and indicated resources amounts to 57 MT. The calculated draw down of resources due to production during 2009 was estimated to be 32 MT.

Inferred resources at Kazakhmys Copper remained largely unchanged at the end of 2009 at 1,603 MT.

KAZAKHMY'S GOLD

Summary of metal reserves

		Reserves ¹ kt		Gold g/t		Silver g/t		Copper %		Gold equivalent ² Moz	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Operating mines ³	Proved	676	1,231	1.18	1.28	1.60	3.49	0.22	0.17	0.03	0.06
	Probable	1,818	1,998	1.37	1.44	0.25	0.90	0.03	0.04	0.09	0.10
	Total	2,494	3,229	1.32	1.38	0.62	1.89	0.08	0.09	0.12	0.16
Development projects ⁴	Proved	–	–	–	–	–	–	–	–	–	–
	Probable	7,982	7,982	1.42	1.42	8.26	8.26	0.89	0.89	0.78	0.74
	Total	7,982	7,982	1.42	1.42	8.26	8.26	0.89	0.89	0.78	0.74
Total Kazakhmys Gold	Proved	676	1,231	1.18	1.28	1.60	3.49	0.22	0.17	0.03	0.06
	Probable	9,800	9,980	1.41	1.43	6.77	6.79	0.74	0.72	0.87	0.84
	Total	10,476	11,211	1.40	1.41	6.44	6.43	0.70	0.66	0.90	0.90

¹ Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

² Gold equivalent ounces have been calculated based on the following prices: copper \$4,250 (2008: \$3,804) per tonne, gold \$800 (2008: \$785) per ounce and silver \$13.00 (2008: \$11.40) per ounce.

³ Operating mines consist of the Mizek and Mukur mines.

⁴ Development projects relate to Bozymchak.

Summary of metal resources

		Resources ¹ kt		Gold g/t		Silver g/t		Copper %		Gold equivalent ² Moz	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Operating mines ³	Measured	5,691	4,876	2.33	2.43	5.32	4.88	0.66	0.65	0.64	0.55
	Indicated	5,485	6,660	2.17	2.40	4.05	3.97	0.50	0.58	0.54	0.71
	Total	11,176	11,536	2.25	2.42	4.70	4.35	0.58	0.61	1.18	1.26
	Inferred	2,939	2,508	2.26	2.53	4.23	4.05	0.52	0.61	0.30	0.28
Development projects ⁴	Measured	–	–	–	–	–	–	–	–	–	–
	Indicated	12,076	12,076	1.64	1.64	8.18	8.18	0.90	0.90	1.27	1.21
	Total	12,076	12,076	1.64	1.64	8.18	8.18	0.90	0.90	1.27	1.21
	Inferred	12,852	12,853	1.49	1.49	23.13	23.13	0.82	0.82	1.33	1.27
Total Kazakhmys Gold	Measured	5,691	4,876	2.33	2.43	5.32	4.88	0.66	0.65	0.64	0.55
	Indicated	17,561	18,736	1.81	1.91	6.89	6.68	0.78	0.79	1.81	1.92
	Total	23,252	23,612	1.93	2.02	6.51	6.31	0.75	0.76	2.45	2.47
	Inferred	15,791	15,361	1.63	1.66	19.61	20.02	0.76	0.79	1.63	1.55

¹ Resources include undiscounted reserves. No ore loss or dilution has been included.

² Gold equivalent ounces have been calculated based on the following prices: copper \$4,250 (2008: \$3,804) per tonne, gold \$800 (2008: \$785) per ounce and silver \$13.00 (2008: \$11.40) per ounce.

³ Operating mines consist of the Mizek and Mukur mines.

⁴ Development projects relate to Akjilga and Bozymchak.

The slight decrease in reserves and resources is largely attributable to production of oxide and transitional ore from Mizek. At Mukur, recently established resources have made up for production in 2009. Resources at the other deposits remain unchanged since 2008, pending new estimates based on exploration carried out in 2009. These resource estimates are expected by mid-2010.

MINING RESERVES AND RESOURCES CONTINUED

COAL RESERVES

		Reserves ¹ MT		Ash ad ² kcal/kg		CV ncvar ³ g/t		Sulphur %	
		2009	2008	2009	2008	2009	2008	2009	2008
Kazakhmys Copper ⁴	Proved	296.2	302.2	–	–	–	–	–	–
	Probable	99.9	99.9	–	–	–	–	–	–
	Total	396.1	402.1	45.7	46.7	3,633	3,784	0.5	0.5
Kazakhmys Power ⁵	Proved	105.2	107.8	–	–	–	–	–	–
	Probable	71.9	73.0	–	–	–	–	–	–
	Total	177.1	180.8	23-34	23-34	3,510-4,150	3,510-4,150	0.4-0.6	0.4-0.6
Total	Proved	401.4	410.0						
	Probable	171.8	172.9						
	Total	573.2	582.9						

¹ Includes coal loss and increase in ash content.

² ad – refers to air dried.

³ ncvar – refers to net calorific value as received.

⁴ Consists of the Molodezhny and Kuu-Chekinsky coal mines which are part of the Karaganda Region.

⁵ Consists of the Maikuben West coal mine.

IMC GROUP CONSULTING LIMITED

REVISION OF RESERVES AND RESOURCES STATEMENT TO 31 DECEMBER 2009

IMC Group Consulting Ltd ('IMC') has undertaken a review of the reserves and resources estimates prepared by Kazakhmys PLC (the 'Company'), as the basis for the preparation of a statement of reserves and resources as at 31 December 2009.

Tabulations of reserves and resources, comparisons with the previous annual reserve statement and short technical descriptions, are provided for Kazakhmys Copper, Kazakhmys Gold and Maikuben West.

The Statement of Reserves and Resources is restated in accordance with the criteria of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves' (2004), published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and collaborating institutions (the 'JORC Code').

IMC is satisfied, from the review undertaken, that the recently revised estimates of reserves and resources prepared by the Company, is in accordance with the reserve classification system required by law in the Republic of Kazakhstan and that, correspondingly, the estimates have a consistent basis for expressing the degree of confidence for stating quantities of exploitable ore at specific grades of metal content. On the basis of the estimates supplied by the Company, IMC has applied the same criteria as expressed in the Competent Person's Report at the time of Listing, for preparation of the restatement of reserves and resources as at 31 December 2009, in accordance with the reporting criteria of the JORC code.

In previous annual statements of resources and reserves prepared by IMC, for the mature copper mining operations the policy has been adopted that the category of Measured Resource, and Proven Reserve, will be restricted to that ore which has been exposed or is in the process of development within the rolling three-year forward operations plan as formally reported to the State Reserves Committee. This policy has again been used for the present statement for Kazakhmys Copper operations as at 31 December 2009.

John S Warwick

BSC (Hons) FIMMM, CENG, EUR ING
Director, IMC Group Consulting Ltd
10 February 2010

IMC Group Consulting Ltd

Icon Business Centre
Lake View Drive
Sherwood Park
Nottinghamshire NG15 0DT
United Kingdom

SHAREHOLDER INFORMATION

Annual General Meeting

The AGM of the Company will be held at 12.15pm on 14 May 2010 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom. The Notice of Meeting and the Form of Proxy are enclosed with this Annual Report. The Notice of Meeting can also be found in the Investors and Media section on the Kazakhmys website www.kazakhmys.com.

Electronic shareholder communications



Kazakhmys uses its website www.kazakhmys.com as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner in accordance with the Companies Act 2006.

Electronic communications allows shareholders to access information instantly as well as helping Kazakhmys reduce its costs as well as its impact on the environment.

Shareholders can sign up for electronic communications via Computershare's Investor Centre website at www.investorcentre.co.uk. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's registrar, Computershare.

In addition to enabling shareholders to register to receive communications by email, Computershare's Investor Centre provides a facility for shareholders to manage their shareholding online by allowing them to:

- view their share balance;
- change their address;
- view payment and tax information; and
- update payment instructions.

Investor Centre also offers a share dealing service.

For more information, shareholders should visit the Investor Centre website at www.investorcentre.co.uk.

Electronic voting

All shareholders can submit proxies for the AGM electronically by logging on to Computershare's website at www.eproxyappointment.com.

Website

A wide range of information on Kazakhmys is available at www.kazakhmys.com including:

- financial information – annual and interim reports as well as production reports;
- share price information – current trading details and historical charts;
- shareholder information – dividend information, AGM results and details of the registrar; and
- press releases – current and historical.

Registrar

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 7NH
United Kingdom

Tel: +44 (0)870 707 1100

Fax: +44 (0)870 703 6101

Email: web.queries@computershare.co.uk

Kazakhstan shareholder enquiries

Any queries from Kazakhstan shareholders may be addressed to:

Kamal Uteshev
Kazakhmys Services Limited
Almaty Branch Office
69-A, Samal 2
Almaty 050059
Republic of Kazakhstan

Tel: +7 727 2663317

Dividends

The Board recommends the payment of a final dividend of 9.0 US cents per ordinary share (2008: nil). If approved, the dividend will be paid on 18 May 2010 to shareholders on the register at the close of business on 23 April 2010.

Currency option and dividend mandate

The Company declares dividends in US dollars. If you wish to receive your dividend in UK pounds sterling, you should contact the Company's registrar, Computershare, to request a Currency Election Form.

Computershare can also arrange for your dividend to be paid directly into your UK bank account. To take advantage of this facility, you should contact Computershare to request a Dividend Mandate Form.

This arrangement is only available in respect of dividends paid in UK pounds sterling.

Half-yearly results

The half-yearly results, to be announced in August 2010, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy. Shareholders that have signed up for e-communications will be sent a notification when these are available on the website.

Company Secretary

Robert Welch
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 Email: robert.welch@kazakhmys.com

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 20 Moorgate
 London EC2R 6DA
 United Kingdom

Citigroup Global Markets Limited
 33 Canada Square
 London E14 5LB
 United Kingdom

Auditors

Ernst & Young LLP
 1 More London Place
 London SE1 2AF
 United Kingdom

Shareholder interests at 31 December 2009

Number of shareholders: 2,027

Number of shares in issue: 535,240,338

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	876	43.22	0.06
1,001 to 5,000	384	18.94	0.18
5,001 to 10,000	134	6.61	0.19
10,001 to 100,000	386	19.04	2.69
Over 100,000	247	12.19	96.88
Total	2,027	100.00	100.00

By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	729	35.96	0.41
Banks/nominees	1,247	61.52	81.70
Pension funds	4	0.20	0.05
Investment/unit trusts	2	0.10	0.07
Insurance companies	5	0.25	0.00
Corporate holders	40	1.97	17.77
Total	2,027	100.00	100.00

FINANCIAL CALENDAR

Ex-dividend date	21 April 2010
Record date	23 April 2010
Final dividend payable	18 May 2010
Interim dividend payable	October 2010

EVENTS CALENDAR

Q1 Interim	
Management Statement	April 2010
Annual General Meeting	14 May 2010
Half-yearly results announced	August 2010
Q3 Interim	
Management Statement	October 2010

Shareholder Information

GLOSSARY

bcm:t

Bank cubic metres excavated to recover one metric tonne of coal

Board or Board of Directors

The Board of Directors of the Company

Capital employed

The aggregate of equity attributable to owners of the Company, minority interests and borrowings

Cash cost of copper after by-product credits

The total of cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathode equivalent sales

CO₂

Carbon dioxide

Combined Code

The Combined Code on Corporate Governance issued by the Financial Reporting Council

Committee or Committees

All or any of the Audit, Group Health, Safety and Environment, Nomination or Remuneration Committees depending on the context in which the reference is used

Company or Kazakhmys

Kazakhmys PLC

CREST

An electronic means of settling share transactions and registering investors on a company's register of members

Directors

The Directors of the Company

dollar or \$

United States dollars, the currency of the United States of America

EBITDA

Earnings before interest, taxation, depreciation, depletion, amortisation and the mineral extraction tax

ENRC or ENRC PLC

Eurasian Natural Resources Corporation PLC

EPS

Earnings per share

EPS based on Underlying Profit

Profit before special items and other non-recurring or variable non-trading items, and their resulting taxation and minority interest impact, divided by the weighted average number of ordinary shares in issue during the period

EPT

Excess profits tax

EURIBOR

European Inter Bank Offer Rate

Euro or €

Euro, the currency of certain member states of the European Union

Free Cash Flow

Net cash flow from operating activities less sustaining capital expenditure on tangible and intangible assets

FTSE 100

Financial Times Stock Exchange top 100 companies

g/t

Grammes per metric tonne

Government

The Government of the Republic of Kazakhstan

the Group

Kazakhmys PLC and its subsidiary companies

GHSE Committee

Group Health, Safety and Environment Committee

Group EBITDA

Earnings before interest, taxation, depreciation, depletion, amortisation and the mineral extraction tax adjusted for special items and including the share of EBITDA of the associate

GVA

Gross value added, which is calculated as turnover less the input cost of copper cathode

GW

Gigawatt, a unit of power equal to one billion watts

GWh

Gigawatt-hour, one gigawatt-hour represents one hour of electricity consumed at a constant rate of one gigawatt

IAS

International Accounting Standards

IASB

International Accounting Standards Board

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standards

IRR

Internal Rate of Return

ISO 14001

An environmental management systems standard published by the International Standards Organisation

JORC

Joint Ore Reserves Committee

Kazakhmys LLC or Kazakhmys Corporation LLC

Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan

Kazakhmys Copper

An operating segment of the Group comprising Kazakhmys Corporation LLC and Kazakhmys Sales Limited, which includes the processing and sale of copper and other metals and onward sale to third parties

Kazakhmys Gold

An operating segment of the Group, which includes the processing of gold ore into refined ore and exploration and development activity in the precious metals sector in Central Asia

Kazakhmys Petroleum

An operating segment of the Group, which holds a licence to conduct oil and gas exploration and development activity in the Eastern Akzhar exploration block in western Kazakhstan

Kazakhmys Power

An operating segment of the Group, which includes the Ekibastuz GRES-1 coal-fired power plant and Maikuben West coal mine, whose principal activity is the sale of electricity and coal to external customers

Kazakhstan

The Republic of Kazakhstan

kbcm

Thousand bank cubic metres

KEGOC

Kazakhstan Electricity Grid Operating Company

kg

kilogramme

KGcal

Thousand gigacalories, units of heat energy

koz

Thousand ounces

kt

Thousand metric tonnes

km

kilometres

km²

Square kilometres

KPI

Key performance indicator

kW

kilowatt, a unit of power equal to one thousand watts

kWh

kilowatt hour

lb

pound, unit of weight

LBMA

London Bullion Market Association

LIBOR

London Inter Bank Offer Rate

Listing or IPO

The listing of the Company's ordinary shares on the London Stock Exchange on 12 October 2005

LME

London Metal Exchange

LOM or life of mine

The remaining life of the mine, in years, calculated by deducting the scheduled production rates (i.e. the rate at which material will be removed from the mine to the current defined reserves)

LSE

London Stock Exchange

Managed businesses

Represents the Kazakhmys Copper, Kazakhmys Power, Kazakhmys Gold, Kazakhmys Petroleum, MKM and corporate divisions

megalitre

Thousand cubic metres

MKM

MKM Mansfelder Kupfer und Messing GmbH, the Group's operating subsidiary in the Federal Republic of Germany and an operating segment of the Group, which manufactures copper and copper alloy semi-finished products

Moz

Million ounces

MT

Million metric tonnes

MW

Megawatt, a unit of power equivalent to one million watts

NEBOSH

National Examination Board in Occupational Safety and Health

Net dependable capacity

Maximum capacity sustained by a unit in a specified period modified for seasonal limitations and reduced by the capacity required for the plant

NO_x

Nitrogen oxides

OHSAS 18001

Occupational health and safety assessment series (specifications for occupational health and safety management systems)

Ounce or oz

A troy ounce, which equates to 31.1035 grammes

PXF

Pre-export finance debt facility

Quotational Period

Period over which an average price is calculated to price commodity sales

ROCE

Return on Capital Employed, defined as profit before taxation and finance items, excluding special items, as a percentage of the average of opening and closing capital employed

\$/t or \$/tonne

US dollars per metric tonne

Samruk

Joint Stock Company "National Welfare Fund Samruk-Kazyna", an entity owned and controlled by the Government of Kazakhstan

Segmental EBITDA

Earnings before interest, taxation, depreciation, depletion, amortisation and the mineral extraction tax from the Group's managed businesses

SO₂

Sulphur dioxide

Special items

Those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 6(a) to the financial statements

t

metric tonnes

tenge or KZT

The official currency of the Republic of Kazakhstan

UK

United Kingdom

Underlying Profit

Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and minority interest effects. Underlying profit is set out in note 14(b) to the financial statements

USc/lb

US cents per pound

Cautionary comment concerning forward-looking statements

This Annual Report includes forward-looking statements with respect to the business, strategy and plans of Kazakhmys and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of Kazakhmys to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Listing Rules and applicable law, Kazakhmys does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report.

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