Kazakhmys PLC (formerly KCC International PLC)

Report and Financial Statements

Year ended 31 December 2004

Directors
Vladimir Kim
Yong Keu Cha
Oleg Novachuk
David Munro
James Rutland
Vladimir Ni

Company Secretary
Matthew Hird

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Directors' remuneration report

Introduction

The Directors' remuneration report sets out certain information on remuneration for the period ended 31 December 2004 concerning the directors of Kazakhmys PLC (the "Company"). This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 as, although the Company was not listed in the period under review, it is nonetheless a statutory requirement for such a report to be produced. Part II of this report contains the information on which the auditors are required to report to the Company's members.

PART I

Remuneration committee

During the year under review, the Company did not have a remuneration committee. A remuneration committee (the "Committee") was established by the board of directors (the "Board") on 23 September 2005. Its terms of reference are to determine and agree with the Board the broad policy for the remuneration of executives and designated senior management, as well as specific remuneration packages, including pension rights and any compensation payments for them. It is proposed that the Committee will be chaired by Lord Renwick upon his appointment as a director. Its existing members are Vladimir Ni and James Rutland.

Remuneration policy

The Board has so far taken decisions on remuneration on an ad hoc basis. The Committee will be responsible for setting the remuneration policy for executive directors and senior management. The policy for non-executive directors will be set by the Board as a whole.

Basic salaries and bonuses

During the period under review, the directors, other than Mr Kim, received no remuneration from the Company or its subsidiaries. Mr Kim's salary and bonus were paid by the Company's principal subsidiary, Kazakhmys Corporation LLC ("Kazakhmys"). Future salaries and bonuses for directors will be determined by the Committee. The Company has agreed to pay bonuses of up to 150% of salary to the executive directors subject to the achievement of performance conditions and the Committee's discretion.

Pensions and benefits-in-kind

The Company does not provide pension benefits to the directors but provides medical expenses insurance and fully serviced motor cars to the executive directors.

Employee share schemes

The Group does not operate any employee share schemes or long-term incentive plans. No share performance graphs are shown as the Company was not listed during the financial year ended 31 December 2004.

Relative importance of fixed and variable pay

It is proposed that a significant proportion of the remuneration of the executive directors will be performance-linked for 2005 and future years.

Directors' remuneration report

Directors' service contracts and non-executive director fee arrangements

The executive directors are employed under contracts of employment with the Company dated 26 September 2005 which took effect from 1 October 2005. Other than for cause or incapacity, the contracts may not be terminated by either party to take effect before twelve months following the date of admission of the Company's ordinary shares to trading on the London Stock Exchange and admission to the Official List of the Financial Services Authority on 12 October 2005 ("Listing"), but subject to that, the contracts may be terminated by not less than three months' notice. The appointments of the non-executive directors commenced on 23 September 2005 and continue for a period of one year and are automatically renewed on an annual basis unless otherwise determined by the Board by not less than three months' notice to expire after the first anniversary of the date of Listing and are subject to earlier termination in certain circumstances including resignation from the Board, removal by the Board or the Company in compliance with the Companies Act 1985 and in the event of a material breach of the non-executive director's obligations.

The current salaries/fees are as set out in the table below:

Director	***Current salary/fee***
Vladimir Kim	£720,000 per annum plus annual discretionary performance related bonus of up to 150% of base salary
Yong Keu Cha	£960,000 per annum plus annual discretionary performance related bonus of up to 150% of base salary
Oleg Novachuk	£600,000 per annum plus annual discretionary performance related bonus of up to 150% of base salary
David Munro	£120,000 per annum
Vladimir Ni	£60,000 per annum
James Rutland	£120,000 per annum

The Remuneration Committee and the Board will be reviewing these provisions in December 2005, with particular regard to:

- the appropriate level of remuneration for the Executive Chairman;

- the appropriate level of bonus maxima; and

- the alignment of Mr Ni's remuneration as a non-executive director with that of the other non-executive directors.

Mr Munro was paid a one time fee of £400,000 for services rendered in relation to the Listing.

Directors' remuneration report

PART II (Audited)

Directors' remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2004 for individual directors who held office in the Company during this period.

Director	*Base salary/ fees $'000*	*Annual performance bonus $'000*	*Benefits-in-kind $'000*	*Total $'000*
Vladimir Kim (1) (2)	5	17	-	22
Yong Keu Cha (3)	-	-	-	-
Oleg Novachuk (3)	-	-	-	-
Jinsoo Yang (3)	-	-	-	-

(1) Mr Kim's remuneration represents the salary and bonus he received from Kazakhmys for the period from 24 December 2004 to 31 December 2004 in which he served as a director of the Company. Prior to 24 December 2004, Mr Kim received remuneration from Kazakhmys at the same level as the eight day period in which he served as a director of the Company.

(2) During the year ended 31 December 2004, Mr Kim was provided with a fully serviced motor car and a driver, but as these benefits were used exclusively for business purposes, they did not give rise to monetary benefits in kind under Kazakhstani tax legislation.

(3) Messrs Cha, Novachuk and Yang received remuneration during the year ended 31 December 2004 from Apro Limited, a company external to the Group and a related party (refer Note 29(a) to the financial statements).

Directors' interests in ordinary shares

The interests of the directors are set out in the Directors' report on pages 6 to 9.

Approval

This report has been approved by the board of directors of Kazakhmys PLC.

Signed on behalf of the board of directors,

Vladimir Kim

Executive Chairman

17 November 2005

Directors' report

The directors have pleasure in presenting their first report and accounts of Kazakhmys PLC and its subsidiaries for the year ended 31 December 2004.

Results and dividends

The Group profit for the year, after taxation and minority interest, amounted to $303.9 million. Turnover and operating profit increased by 50.5% and 136.5%, respectively, compared to the year ended 31 December 2003 principally due to the significant increase in copper prices.

No dividend payable by the Company is proposed by the directors in respect of the period.

The Company's principal subsidiary, Kazakhmys Corporation LLC ("Kazakhmys"), paid interim dividends of $106.3 million to its shareholders in respect of the year ended 31 December 2004. As the share exchange agreements (refer below) were not effective until after 23 November 2004, these dividends were paid directly to Kazahkmys's former shareholders, rather than to the Company. The dividends are recognised in the Group's consolidated profit and loss account for the year ended 31 December 2004, consistent with the merger accounting basis of preparation used to account for group reconstructions.

Principal activities and review of the business

Kazakhmys PLC (the "Company"), formerly KCC International PLC, is a public limited company incorporated in England and Wales. The Company was incorporated on 15 July 2004.

The Group's operations are primarily conducted through Kazakhmys in which the Company, upon completion of all applicable share exchanges, will have acquired a 97.4% interest as a result of the share exchange agreements entered into pursuant to the offer made by the Company to holders of shares in Kazakhmys on or around 23 November 2004.

The Group operates in the mining industry. Its principal business is the mining, processing, smelting, refining and sale of copper and copper products, including copper cathode and copper rod. It also provides other related services to various external customers.

The Company is a holding company and also purchases commodity products from Kazakhmys for resale to third party customers.

In December 2004, the Group acquired Mansfelder Kupfer und Messing GmbH ("MKM"), a copper products fabrication company in Germany that produces and sells copper and copper alloy semi-finished products worldwide.

Pursuant to an agreement dated 31 December 2004, the Company acquired part of the business of Apro Limited ("Apro") for a consideration of $1.0 million. Apro's fixed assets, employees and goodwill were transferred to the Company. As part of the business purchase, Apro assigned to the Company its interest in certain trading contracts.

The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in Note 36 of the financial statements.

Future developments

The Company's ordinary shares were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange on 12 October 2005, and the directors intend to use the listing as a platform upon which to grow the operations of the Group, both organically and through opportunistic acquisitions.

Directors' report

Market value of land and buildings

Land is carried in the balance sheet at revalued cost subsequent to a revaluation which was undertaken at 1 January 2002 as part of the Group's transition to reporting under International Financial Reporting Standards. It is not practical to estimate the market value of land and mineral reserves and resources at each balance sheet date.

Supplier payment policy

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

For the year ended 31 December 2004, the Company had not traded and at that date had no trade creditors.

Political and charitable donations

No political donations were made to political organisations during the year. The Group made charitable donations of $4.3 million during the year.

Events since the balance sheet date

Allotment of ordinary shares

Between 24 November 2004 and 23 August 2005, a total number of 16,148,948 ordinary shares of £5 each in the Company were allotted in accordance with the share exchange agreements in return for non-cash consideration. No further ordinary shares of £5 each pursuant to the share exchange agreements have been allotted subsequent to 23 August 2005. However, 40,950 ordinary shares of 20 pence each (equivalent to 1,638 ordinary shares of £5 each prior to the share split which took place on 23 September 2005 (refer Note 38(b) to the financial statements)) remain to be allotted pursuant to the share exchange agreements pending regulatory consent.

On 26 September 2005, the Company issued 5,314,425 ordinary shares of 20 pence each in consideration for the transfer to it of 127,546,200 units (equivalent to 212,577 shares) in Kazakhmys from Kinton Trade Limited. This was an exchange rate equivalent to that applied pursuant to the share exchange offer made by the Company in November 2004 when it first acquired units in Kazakhmys.

Listing of ordinary shares on the London Stock Exchange

On 12 October 2005, the Company's ordinary shares were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange. Following the exercise of an over-allotment option, the global offer comprised 140,849,373 ordinary shares of 20 pence each, of which 58,434,025 new ordinary shares of 20 pence each were issued by the Company and 82,415,348 were ordinary shares of 20 pence each sold by existing shareholders. Gross proceeds of $553.7 million (£315.5 million) were received by the Company as a result of the issue of the new ordinary shares.

Directors' report

Directors and their interests

The directors, who served during the year ended 31 December 2004 and to the current date, are as follows:

Name	*Date of appointment*	*Date of resignation*
Vladimir Kim	24 December 2004	-
Yong Keu Cha	15 July 2004	-
Oleg Novachuk	15 July 2004	-
David Munro	23 September 2005	-
Vladimir Ni	23 September 2005	-
James Rutland	23 September 2005	-
Jinsoo Yang	5 August 2004	23 September 2005

Biographical details of the directors standing for re-election at the forthcoming annual general meeting to be held on 16 December 2005 are contained within the accompanying Chairman's letter containing the notice of the annual general meeting.

The interests of directors who were in office at 31 December 2004 in the share capital of the Company at their date of appointment, as at 31 December 2004 and as at 17 November 2005 were as follows:

Name	*17 November 2005 ordinary shares of 20 pence each*	*31 December 2004 ordinary shares of £5 each*	*15 July 2004 ordinary shares of £5 each*
Vladimir Kim (1)	186,685,950	7,467,191	-
Yong Keu Cha (2)	72,946,982	6,083,601	-
Oleg Novachuk (3)	51,462,545	1,995,718	-
Jinsoo Yang	25	1	-

(1) Mr Kim is interested in these ordinary shares by reason of his 100% interest in Cuprum Holding B.V. and his 50% interest in Harper Finance Limited. Additionally, Mr Kim is the registered and beneficial holder of 6,175 ordinary shares.

(2) Mr Cha is interested in these ordinary shares by reason of his 100% interest in Perry Partners S.A.

(3) Mr Novachuk is interested in these ordinary shares by reason of his 44.94% interest in Harper Finance Limited and his 50% interest in Kinton Trade Limited, a minority shareholder of the Company, which owns 11,723,045 ordinary shares.

Directors' report

Substantial shareholdings

As at 17 November 2005, the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary shares of the Company:

Name of holder	*Number of ordinary shares of 20 pence each held*	*Percentage held*
Cuprum Holding B.V.	135,944,325	29.1%
Harper Finance Limited	101,470,900	21.7%
Perry Partners S.A.	72,946,982	15.6%

Directors' and officers' liability insurance

Since the year end, the Company purchased and maintained liability insurance for its directors and officers as permitted by Section 310(3) of the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the annual general meeting.

Annual general meeting

The first annual general meeting of the Company will be held at 2pm on 16 December 2005 at The Four Seasons Hotel, Hamilton Place, Park Lane, London W1A 1AZ. The notice convening the meeting is included within the accompanying Chairman's letter with details of the business to be considered.

By order of the Board,

Matthew Hird
Company Secretary
17 November 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Kazakhmys PLC (formerly KCC International PLC)

We have audited the Group's financial statements for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Note of Historical Cost Profits and the Company Balance Sheet and the related notes 1 to 38, and those parts of the Directors' remuneration report described as audited. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

17 November 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Notes	2004 $'000	2003 $'000
Turnover	2	**1,259,527**	**836,920**
Cost of sales		(504,190)	(435,814)
Gross profit		**755,337**	**401,106**
Distribution costs		(22,673)	(27,674)
Administrative expenses		(191,134)	(162,137)
Normal		(149,266)	(154,314)
Exceptional		(41,868)	(7,823)
Other operating income		48,694	38,224
Operating profit	3	**590,224**	**249,519**
Operating profit before operating exceptional items		632,092	257,342
Operating exceptional items		(41,868)	(7,823)
Loss on sale of fixed assets		(25,881)	(8,915)
Profit on ordinary activities before interest		**564,343**	**240,604**
Interest income	6	13,801	9,320
Interest payable and similar charges	7	(24,473)	(9,830)
Profit on ordinary activities before taxation		**553,671**	**240,094**
Tax on profit on ordinary activities	8	(247,594)	(124,381)
Profit on ordinary activities after taxation		**306,077**	**115,713**
Minority interests		(2,210)	(3,086)
Profit for the financial year		**303,867**	**112,627**
Dividends	9	(106,259)	-
Retained profit for the year	22	**197,608**	**112,627**
Earnings per share – basic and diluted	10	**$18.81**	**$6.97**

Consolidated balance sheet

at 31 December 2004

	Notes	2004 $'000	2003 $'000
Fixed assets			
Intangible assets	11	(92,027)	14,119
Positive goodwill		425	-
Negative goodwill		(111,327)	-
Licences and other		18,875	14,119
Tangible fixed assets	12	1,676,866	1,388,721
Investments	13	5,287	2,009
		1,590,126	**1,404,849**
Current assets			
Stocks	14	289,118	158,431
Debtors	15	227,529	218,943
Current asset investments	16	262,827	260,628
Cash at bank and in hand		71,189	7,711
		850,663	**645,713**
Creditors: amounts falling due within one year	17	**(364,624)**	**(283,612)**
Net current assets		**486,039**	**362,101**
Total assets less current liabilities		**2,076,165**	**1,766,950**
Creditors: amounts falling due after more than one year	18	(78,011)	(48,168)
Provisions for liabilities and charges	20	(131,117)	(63,730)
		1,867,037	**1,655,052**
Capital and reserves			
Called up share capital	21	153,057	152,965
Revaluation reserve	22	759,113	775,839
Reserve fund	22	14,760	14,760
Profit and loss account	22	902,034	675,389
Shareholders' funds		**1,828,964**	**1,618,953**
Minority interests		38,073	36,099
		1,867,037	**1,655,052**
Shareholders' funds may be analysed as:			
Equity interests		1,866,945	1,655,052
Non-equity interests		92	-

These financial statements were approved by the board of directors on 17 November 2005.
Signed on behalf of the board of directors

Vladimir Kim	Yong Keu Cha	Oleg Novachuk
Chairman	Chief Executive	Finance Director

Consolidated cash flow statement

for the year ended 31 December 2004

	Notes	2004 $'000	2003 $'000
Net cash inflow from operating activities	23	**733,754**	**267,209**
Returns on investments and servicing of finance			
Interest received and other income		13,476	2,337
Interest paid		(2,920)	(9,763)
		10,556	**(7,426)**
Taxation			
Overseas tax paid		**(164,156)**	**(126,066)**
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(4,196)	(73)
Payments to acquire tangible fixed assets		(158,015)	(123,330)
Proceeds from disposal of tangible fixed assets		4,108	1,803
Payment to acquire fixed asset investments		-	(393)
Proceeds from disposal of fixed asset investments		101	-
		(158,002)	**(121,993)**
Acquisitions			
Purchase of subsidiary undertaking (net of cash acquired of $7.9 million)		**4,557**	**-**
Equity dividends paid		**(53,664)**	**(34)**
Net cash inflow before management of liquid resources and financing		**373,045**	**11,690**
Management of liquid resources			
Investment in bank deposits with maturity longer than 3 months		(84,786)	(75,683)
Proceeds from sale of/(investment in) securities		86,167	(78,114)
		1,381	**(153,797)**
Financing			
Decrease in short term borrowings	24	(231,074)	(37,248)
Increase in long term borrowings	24	77,778	-
Capital transactions between subsidiary and shareholders		(161,073)	78,874
		(314,369)	**41,626**
Increase/(decrease) in cash in the year	24	**60,057**	**(100,481)**

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 *$'000*	*2003* *$'000*
Profit for the year	303,867	112,627
Foreign exchange differences on foreign currency net investments	169,202	123,339
Total recognised gains relating to the year	**473,069**	**235,966**

Consolidated note of historical cost profits

for the year ended 31 December 2004

	2004 *$'000*	*2003* *$'000*
Reported profit on ordinary activities before taxation	553,671	240,094
Difference between historical cost depreciation charge and the actual depreciation charge for the year	74,094	66,824
Difference between historic net book value and revalued net book value for fixed assets disposed during the year	17,739	4,946
Historical cost profit on ordinary activities before taxation	**645,504**	**311,864**
Historical cost profit for the year after taxation, minority interests and dividends	**287,053**	**182,531**

Company balance sheet
at 31 December 2004

	Notes	2004 $'000
Fixed assets		
Intangible fixed assets	30	425
Tangible fixed assets	31	503
Investments	32	152,965
		153,893
Current assets		
Debtors	33	214,011
Due within one year		136,182
Due after one year		77,829
Cash at bank and in hand		2,910
		216,921
Creditors: amounts falling due within one year	34	**(106,033)**
Net current assets		**110,888**
Net assets		**264,781**
Capital and reserves		
Called up share capital	35	153,057
Profit and loss account	35	111,724
Shareholders' funds		**264,781**
Shareholders' funds may be analysed as:		
Equity interests		264,689
Non-equity interests		92

These financial statements were approved by the board of directors on 17 November 2005.

Signed on behalf of the board of directors

Vladimir Kim	Yong Keu Cha	Oleg Novachuk
Chairman	Chief Executive	Finance Director

Notes to the financial statements

at 31 December 2004

1. Accounting policies

(a) Basis of preparation

The Company was incorporated and registered in England and Wales as a public company under the name of KCC International PLC on 15 July 2004. The Company's share capital on incorporation was £50,000 divided into 50,000 ordinary shares of £1 each, two of which were issued to each of the subscribers. Pursuant to a special resolution of the Company dated 22 October 2004, all the issued and unissued ordinary shares of £1 each of the Company were consolidated and divided into 10,000 ordinary shares of £5 each and the authorised share capital of the Company was increased to £100,050,000 by the creation of 19,990,000 ordinary shares of £5 each and 50,000 redeemable preference shares of £1 each. Pursuant to a written resolution dated 19 November 2004, the authorised share capital of the Company was increased from £100,050,000 to £100,050,001 by the creation of one special share of £1.

Pursuant to various share exchange agreements entered into pursuant to the offer made by the Company to shareholders of Kazakhmys, the Company acquired Kazakhmys on 23 November 2004 in consideration for the allotment of ordinary shares of £5 each in the Company or for a cash payment. The consideration offered for each Kazakhmys share was one ordinary share in the Company or a cash payment of Kazakhstani Tenge ("KZT") 4,736. No shareholder elected for the cash option and the offer period closed on 7 January 2005.

Pursuant to the share exchange agreements, the Company issued 15,580,210 ordinary shares of £5 each on or around 25 November 2004, a further 568,738 ordinary shares of £5 each were issued in the period to 23 August 2005 and an additional 40,950 ordinary shares of 20 pence each are expected to be issued (equivalent to 1,638 ordinary shares of £5 each prior to the share split which took place on 23 September 2005 (refer to Note 38(b)) in which the Company's share capital was redenominated into ordinary shares of 20 pence each). Immediately after the initial issue of shares pursuant to the share exchange agreements, the Company's interest in Kazakhmys was 93.96%. This interest is expected to increase to 97.40% upon completion of share allotments pursuant to the share exchange agreements.

The share exchange agreements have been accounted for in accordance with the principles of merger accounting, although they do not satisfy all the conditions required under Schedule 4A of the Companies Act 1985 and FRS 6 '*Mergers and Acquisitions'*. Group reconstruction provisions pursuant to FRS 6 include the addition of a new parent company to the existing group, although there is a requirement under such provisions that the shareholders prior to and after any share exchange remain the same, and the rights of each such shareholder, relative to the others, are unchanged. Upon completion of share allotments pursuant to the share exchange agreements, a minority interest of 2.60% will be created as a result of the implementation of the share exchange referred to above, and therefore, the ultimate shareholders have not remained the same.

However, in the opinion of the directors, the share exchange agreements are a Group reconstruction rather than an acquisition, as the primary purpose of the agreements was to include a new parent company in the Group incorporated in England and Wales in readiness for the initial public offering of the Company's ordinary shares on the London Stock Exchange. Furthermore, the creation of a minority interest in Kazakhmys does not have a material impact on the underlying profit and net assets attributable to the Company's equity shareholders.

Consequently, the directors consider that to record the share exchange agreements as an acquisition by the Company, to attribute fair values to the assets and liabilities of the Group and to reflect only the results of the Group after 23 November 2004 within these financial statements, would fail to give a true and fair view of the Group's results and financial position.

The consolidated profit and loss account for the year ended 31 December 2004 combines the results of the Company from the date of incorporation to 31 December 2004 with those of Kazakhmys for the year then ended. The comparative figures in the consolidated profit and loss account are those of Kazakhmys for the year ended 31 December 2003. The consolidated balance sheet as at 31 December 2004 combines the balance sheet of the Company and that of Kazakhmys as at that date, and the comparative figures are those of Kazakhmys as at 31 December 2003.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(a) Basis of preparation (continued)

Furthermore, the directors believe it is not appropriate to present a statutory consolidated profit and loss account from the date of incorporation to 31 December 2004, as the presentation of such information would be inconsistent with the basis of preparation with the remainder of the consolidated financial statements, and such information would not be meaningful to shareholders.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 1985 for the financial statements to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in preparing these consolidated financial statements. The directors consider that it is not practicable to quantify the effect of this departure from the requirements of the Companies Act 1985.

(b) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets. The financial statements are prepared in accordance with applicable UK accounting standards except for the adoption of merger accounting referred to above.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2004.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. On acquisition of a subsidiary, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition.

The financial statements of subsidiaries are prepared for the same reporting period 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 not held by the Company.

(d) 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 foreign currencies other than the functional currency are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency 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 profit and loss account. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(d) Foreign currency translation (continued)

The functional currency of the Company is the US Dollar as the majority of its operating activities are conducted in US Dollars. The functional currency of Kazakhmys is the KZT and of Mansfelder Kupfer und Messing GmbH ("MKM") is the Euro (€). On consolidation, profit and loss accounts of subsidiaries are translated into the presentation currency for the Group, being US Dollars, at average rates of exchange. Balance sheet items are translated into US Dollars at period-end exchange rates. Exchange differences on the re-translation are taken directly to reserves.

Exchange differences on foreign currency borrowings financing those net investments are also dealt with in reserves. All other exchange differences are charged or credited to the profit and loss account in the year in which they arise.

The following exchange rates have been applied:

Currency rates (to the US Dollar)	*31 December 2004*	*31 December 2003*	*Average 2004*	*Average 2003*
Kazakhstani Tenge (KZT)	129.96	143.25	135.95	149.45
Euro (€)	0.737	–	0.805	–

(e) Tangible assets

(i) Transitional revaluation provisions under FRS 15 'Tangible fixed assets'

The Group has taken advantage of the transitional provisions of FRS 15 *'Tangible fixed assets'* and retained book amounts of certain fixed assets which were revalued prior to implementation of that standard in these financial statements. The fixed assets were last revalued at 1 January 2002 and the valuations have not subsequently been updated.

(ii) Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The deemed 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 profit and loss account 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 of acquisition. Freehold land which is not mined is not depreciated.

The expected useful lives are as follows:

Buildings:	15 to 25 years
Plant and Equipment:	4 to 25 years
Fixtures and Fittings:	3 to 15 years

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(e) Tangible assets (continued)

(ii) Property, plant and equipment (continued)

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement of reserves. On the disposal, any related balance remaining in the revaluation reserve is also transferred to the profit and loss accounts as a movement on reserves.

Borrowing costs are not capitalised and are expensed as incurred.

(iii) Mineral properties and mine development costs

Costs of acquiring mineral properties are capitalised in the balance sheet in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised (development expenditure) where the asset is available for use but incapable of operating at normal levels without a commissioning period.

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

(iv) 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 life of the mine on a unit of production basis. The cost of removal of the waste material during a mine's production phase is deferred, where appropriate. The deferral of these costs and subsequent charges in the profit and loss account are determined in order to evenly match the stripping costs against the quantities of ore mined in each period. Where the extraction of the ore is expected to be evenly distributed, or where the impact of deferral is not material, waste removal is expensed as incurred.

(v) Construction in progress

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

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

Construction in progress is not depreciated.

(vi) Subsequent expenditure

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

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(e) Tangible assets (continued)

(vii) Capital 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 profit and loss account over the expected useful life in a manner consistent with the depreciation method of the relevant asset.

(f) Impairment

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

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the economic conditions or in the expected use of an asset. The reversal of an impairment loss is 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. It is the Group’s policy generally not to reverse impairment losses.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(g) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account 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, the future recoverability of the expenditure can be regarded as assured 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. Any expenditure carried forward is amortised in line with the expected future sales from the related project. Other development expenditure is recognised in the profit and loss account as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining company, 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; or
- exploration and evaluation activities in the area of interest have 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. The 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 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.

(i) 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 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 amortised on a straight line basis over its useful economic life. 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.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(i) Intangible assets (continued)

(i) Goodwill (continued)

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

(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 less accumulated amortisation and impairment losses. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

(iii) Amortisation

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

(j) Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

(k) Inventories

Raw materials 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 is 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 debtors

Trade debtors are carried at original invoice amounts less provision made for impairment of these debtors. A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the profit and loss account.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(m) Provisions

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

(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 interest costs. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates.

The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations.

(ii) Restructuring

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

(iii) Other

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

(n) Employee benefits

(i) Long term employee benefits

The Group provides long term employee benefits to employees before, on and after retirement, in accordance with labour union agreements. Such benefits are valued consistent with an unfunded defined benefit plan in accordance with SSAP 24, '*Accounting for pensions'*. The agreement in Kazakhstan provides for one-time retirement grants, financial aid, dental care, medical benefits, sanatorium visits, annual financial support to pensioners, free train passenger tickets and funeral aid. The agreement in Germany provides for part-time work for older employees. There are no employee benefits provided in the United Kingdom.

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

The service cost in relation to these benefits is charged to staff costs within the profit and loss account so as to match the cost of providing these benefits to the period of service of the employees. The interest cost on the unwinding of the obligation is included within interest costs in the profit and loss account.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(n) Employee benefits (continued)

(ii) 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.

(iii) 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 charged to the income statement as incurred.

(o) Turnover

Turnover is recognised to the extent that it is probable that 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 profit and loss account when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer.

Revenue excludes any applicable sales taxes.

(p) Interest income and expenses

Financial income and expenses comprise interest expense on borrowings, the unwinding of provisions, interest income on funds invested, dividend income and foreign exchange gains and losses.

Finance costs relating to debt are recognised in the profit and loss account at a constant rate on the carrying amount of the debt.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

(q) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results, as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments, in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal on the underlying timing differences can be deducted.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

(q) Taxation (continued)

Deferred tax is not recognised when fixed assets are revalued unless, by the balance sheet date, there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(r) Financial instruments

The Group uses various financial instruments as hedges to reduce certain exposures to foreign exchange risks and commodity price risks. These include forward currency contracts and commodity contracts.

Gains or losses on the foreign currency contracts and commodity contracts are deferred and recognised in the profit and loss account and the balance sheet at the same time as the underlying hedged transactions occur or mature.

(s) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayment outstanding.

Notes to the financial statements

at 31 December 2004

2. Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax.

The Group's principal operations are based in Kazakhstan, with MKM, a subsidiary of Kazakhmys, being based in Germany. At the end of 2004, the Group acquired MKM, where it manufactures copper and copper alloy semi-finished products. MKM faces different risks to the Group's Kazakh mining operations and, therefore, from 2005 the Group operated two distinct business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash, deposits, loans and corporate assets, liabilities and expenses.

Turnover, profit on ordinary activities before tax and net assets are analysed by business segment as follows:

Area of activity

	Kazakh mining		**MKM copper processing**		**Total**	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover						
Total sales	1,259,527	836,920	–	–	1,259,527	836,920
Inter-segment sales	–	–	–	–	–	–
Sales to third parties	**1,259,527**	**836,920**	–	–	**1,259,527**	**836,920**
Profit						
Gross profit	755,337	401,106	–	–	755,337	401,106
Operating costs	(123,245)	(143,764)	–	–	(123,245)	(143,764)
Operating exceptional items	(41,868)	(7,823)	–	–	(41,868)	(7,823)
Operating profit	**590,224**	**249,519**	–	–	**590,224**	**249,519**
Non-operating exceptional items					(25,881)	(8,915)
Profit on ordinary activities before interest					564,343	240,604
Interest income					13,801	9,320
Interest payable and similar charges					(24,473)	(9,830)
Profit on ordinary activities before taxation					**553,671**	**240,094**
Net assets						
Net assets by segment	**1,708,721**	**1,655,052**	**352,128**	–	**2,060,849**	**1,655,052**
Minority interest					(38,073)	(36,099)
Unallocated net assets					(193,812)	–
Total net assets					**1,828,964**	**1,618,953**

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Notes to the financial statements

at 31 December 2004

2. Turnover and segmental analysis (continued)

The Group's principal operations have historically been wholly in Kazakhstan and therefore, turnover, profit and net assets by origin have been presented as only one geographical segment for the year ended 31 December 2003. In the year ended 31 December 2004, the Group's operations expanded into three distinct geographical segments following the incorporation of the Company on 15 July 2004, which operates from the United Kingdom, and the acquisition of its German based subsidiary, MKM, on 15 December 2004. Accordingly, turnover, profit and net assets by origin have been presented by these geographical segments for the year ended 31 December 2004.

Geographical area

By destination	**China**		**Europe**		**Other**		**Total**	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*	*2004*	*2003*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover								
Sales to third parties	**856,387**	**419,405**	**143,215**	**235,239**	**259,925**	**182,276**	**1,259,527**	**863,920**

By origin	**Kazakhstan**		**Germany**		**UK**		**Total**	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*	*2004*	*2003*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover								
Total sales	1,259,527	836,920	—	—	—	—	1,259,527	836,920
Inter-segment sales	—	—	—	—	—	—	—	—
Sales to third parties	**1,259,527**	**836,920**	**—**	**—**	**—**	**—**	**1,259,527**	**836,920**
Profit								
Gross profit	755,337	401,106	—	—	—	—	755,337	401,106
Operating (costs)/income	(135,415)	(143,764)	—	—	12,170	—	(123,245)	(143,764)
Operating exceptional items	(41,868)	(7,823)	—	—	—	—	(41,868)	(7,823)
Operating profit	**578,054**	**249,519**	**—**	**—**	**12,170**	**—**	**590,224**	**249,519**
Non-operating exceptional items							(25,881)	(8,915)
Profit on ordinary activities before interest							564,343	240,604
Interest income							13,801	9,320
Interest payable and similar charges							(24,473)	(9,830)
Profit on ordinary activities before taxation							**553,671**	**240,094**
Net assets								
Net assets by segment	**1,705,989**	**1,655,052**	**352,128**	**—**	**2,732**	**—**	**2,060,849**	**1,655,052**
Minority interest							(38,073)	(36,099)
Unallocated net assets							(193,812)	–
Total net assets							**1,828,964**	**1,618,953**

Notes to the financial statements

at 31 December 2004

3. Operating profit

This is stated after charging:

	2004	*2003*
	$'000	*$'000*
Auditors' remuneration – audit services	426	178
– non-audit services	8	75
Depreciation of owned assets	160,136	133,588
Amortisation of intangible assets	1,031	743
Operating exceptional items	41,868	7,823

Operating exceptional items relate to write offs of fixed assets and trade debtors within Kazakhmys.

4. Staff costs and numbers

	2004	*2003*
	$'000	*$'000*
Wages and salaries	133,376	111,445
Other related taxes	25,186	25,199
Post-employment and other benefits	10,635	6,209
	169,197	**142,853**

The average weekly number of employees during the year was made up as follows:

	2004	*2003*
	No.	*No.*
Mining	10,097	9,690
Concentration	4,826	4,683
Smelting	6,103	5,696
Transport	6,569	6,952
Maintenance and services	9,460	11,028
Construction	3,922	4,144
Administration, social sphere and other	21,774	21,997
	62,751	**64,190**

5. Directors' remuneration

Disclosures on directors' emoluments required by the Companies Act 1985 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' remuneration report and form part of these financial statements.

Notes to the financial statements

at 31 December 2004

6. Interest income

	2004	*2003*
	$'000	*$'000*
Bank deposit interest income	**13,801**	**9,320**

7. Interest payable and similar charges

	2004	*2003*
	$'000	*$'000*
Bank loans and overdrafts	2,877	5,352
Other interest and discounts	3,717	3,751
Unwinding of discount on provisions	4,327	3,703
Foreign exchange loss/(gain) on monetary assets/(liabilities)	13,552	(2,976)
	24,473	**9,830**

8. Tax on profit on ordinary activities

The taxation charge is made up as follows:

	2004	*2003*
	$'000	*$'000*
Based on the profit for the year:		
Current tax - Kazakhstan		
Current tax – current period	238,050	125,681
Excess profits tax	15,878	5,039
Deferred tax		
Origination and reversal of timing differences - UK	5,443	-
Origination and reversal of timing differences - Kazakhstan	(10,186)	(7,718)
Excess profits tax - Kazakhstan	(1,591)	1,379
	247,594	**124,381**

Corporation tax for the Company and Kazakhmys is calculated at 30% of the assessable profit for the period. No tax has been charged or credited to the consolidated profit and loss account relating to MKM.

Notes to the financial statements

at 31 December 2004

8. Tax on profit on ordinary activities (continued)

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the primary tax jurisdiction in which the Group operates due to the effects of additional depreciation on revalued fixed assets for which no tax relief is available, excess profit tax relating to certain profitable subsoil contracts for which the rate of taxation exceeds the statutory tax rate in Kazakhstan and community-related expenditure not allowable for tax purposes. It is expected that the future rate of taxation will continue to exceed the statutory rate of taxation in the UK and Kazakhstan for the same reasons.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK and Kazakhstan corporation tax of 30% to the profit before tax is as follows:

	2004	*2003*
	$'000	*$'000*
Profit on ordinary activities before tax	553,671	240,094
Tax on profit on ordinary activities at standard UK and Kazakhstan corporation tax rate of 30% (2003: 30%)	**166,101**	**72,028**
Expenditure not deductible for tax purposes	13,952	12,187
Transactions with related parties	23,917	11,723
Excess profits tax	15,878	5,039
Book depreciation in excess of tax depreciation	6,307	2,207
Depreciation of revalued tangible fixed assets	27,550	21,531
Other items	223	6,005
Effective current tax charge at 45.9% (2003 : 54.4%)	**253,928**	**130,720**

9. Dividends

	2004	*2003*
	$'000	*$'000*
Interim dividend in respect of six months ended 30 June 2004	53,017	-
Interim dividend in respect of three months ended 30 September 2004	53,242	-
	106,259	**-**

The directors have not proposed a dividend in respect of the period from the date of incorporation to 31 December 2004.

The dividends shown above are those that have been declared by Kazakhmys for the period prior to the share exchange agreements. This is consistent with the merger accounting basis of preparation used to account for group reconstructions.

On 7 September 2004, Kazakhmys paid an interim dividend in respect of the year ended 31 December 2004 of $53,017,000 which was paid to shareholders on the register of Kazakhmys as at 6 September 2004. On 24 February 2005, Kazakhmys paid an interim dividend in respect of the year ended 31 December 2004 of $53,242,000, which was paid to shareholders on the register of Kazakhmys as at 31 October 2004.

Notes to the financial statements

at 31 December 2004

10. Earnings per ordinary share

The earnings per share ("EPS") calculation has assumed that the number of ordinary shares issued pursuant to the share exchange agreements through which the Company acquired Kazakhmys had been in issue throughout the period, consistent with the merger accounting basis of preparation. Included in the number of ordinary shares in issue, are 16,148,948 ordinary shares of £5 each which have already been issued as part of the share exchange agreements and 1,638 ordinary shares of £5 each which are expected to be issued in the future as part of the same, but for which issuance is outstanding until regulatory consent has been obtained.

The directors believe that this pro-forma EPS provides a more meaningful comparison of the Group's ongoing business than using the statutory EPS which would only reflect shares issued based on the actual date of issue.

Basic EPS is calculated by dividing attributable profit for the year attributable to ordinary equity shareholders of the Company by the pro-forma number of ordinary shares of £5 each outstanding during the year. The Company has no dilutive potential ordinary shares.

As the 1,638 ordinary shares of £5 each will be issued after 23 September 2005, the date on which the share split took place in which the Company's share capital was redenominated into ordinary shares of 20 pence each, the actual shares to be issued will be 40,950 ordinary shares of 20 pence each. As the share split took place after the year end, EPS for these financial statements is based on the number of ordinary shares of £5 each.

The following reflects the profit and pro-forma share data used in the EPS computations:

	2004	*2003*
Earnings		
Profit attributable to equity shareholders of the Company	$303,867,000	$112,627,000
Number of ordinary shares of £5 each		
Weighted average number of ordinary shares	16,150,588	16,150,588
Earnings per share – basic and diluted	**$18.81**	**$6.97**

Notes to the financial statements

at 31 December 2004

11. Intangible fixed assets

	Negative goodwill	*Positive goodwill*	*Licences*	*Other*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost:					
At 1 January 2004	-	-	14,022	1,423	15,445
Additions	(111,327)	425	-	4,196	(106,706)
Disposals	-	-	-	(205)	(205)
Net exchange adjustment	-	-	1,435	330	1,765
At 31 December 2004	(111,327)	425	15,457	5,744	(89,701)
Amortisation:					
At 1 January 2004	-	-	827	499	1,326
Amortisation charge	-	-	466	565	1,031
Disposals	-	-	-	(205)	(205)
Net exchange adjustment	-	-	106	68	174
At 31 December 2004	-	-	1,399	927	2,326
Net carrying amount:					
At 31 December 2004	**(111,327)**	**425**	**14,058**	**4,817**	**(92,027)**
At 31 December 2003	**-**	**-**	**13,195**	**924**	**14,119**

The major component of intangible assets other than goodwill comprises licences in respect of the Group's mining operations. The amortisation charge for the year is allocated to production expenses and administrative expenses as appropriate.

The positive goodwill relates to the transfer of Apro Limited's business to the Company on 31 December 2004 and represents the difference between the consideration of $1.0 million payable over the fair value of assets acquired (see Note 26(a)).

The negative goodwill relates to the acquisition of MKM on 15 December 2004 and represents the difference between the consideration of $3.3 million payable and the fair value of the net assets acquired of $114.7 million (see Note 26(b)). The negative goodwill has not been amortised during the year ended 31 December 2004 as the acquisition of MKM took place near to the year end, and any such amortisation would have no material impact on the accounts.

Notes to the financial statements

at 31 December 2004

12. Tangible fixed assets

	Freehold land & buildings	*Mine development costs*	*Plant & equipment*	*Other*	*Construction in progress*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:						
At 1 January 2004	546,261	27,839	846,423	182,352	86,696	1,689,571
Acquisitions	57,986	-	136,410	5,591	2,090	202,077
Additions	7,648	-	68,345	32,483	49,539	158,015
Transfers	5,100	-	16,398	472	(21,970)	-
Disposals	(13,872)	-	(52,949)	(7,471)	-	(74,292)
Net exchange adjustment	55,930	2,847	95,610	19,665	13,467	187,519
At 31 December 2004	659,053	30,686	1,110,237	233,092	129,822	2,162,890
Depreciation:						
At 1 January 2004	68,221	3,100	149,999	70,284	9,246	300,850
Depreciation charge	39,748	1,493	87,111	31,784	-	160,136
Disposals	(1,842)	-	(8,445)	(3,709)	-	(13,996)
Net exchange adjustment	8,845	386	20,501	8,324	978	39,034
At 31 December 2004	114,972	4,979	249,166	106,683	10,224	486,024
Net book value at:						
At 31 December 2004	**544,081**	**25,707**	**861,071**	**126,409**	**119,598**	**1,676,866**
At 31 December 2003	**478,040**	**24,739**	**696,424**	**112,068**	**77,450**	**1,388,721**

The directors commissioned Rice Group Central Asia LLP ("Rice Group"), a company holding a state licence to conduct valuations, to carry out an independent appraisal of the majority of tangible fixed assets as of 1 January 2002 to determine their valuation at that date.

The valuation of property, plant and equipment as of 1 January 2002 was determined primarily with reference to depreciated replacement cost. The directors believe that the valuation reflected the economic condition of the Group's property, plant and equipment at that time. Subsequent additions have been at cost.

At 31 December 2004, plant and equipment with a cost of $53.8 million (2003: $36.9 million) were fully depreciated. Other assets include fixtures and fittings and deferred mine stripping costs.

During the year ended 31 December 2004, a loss of $25.9 million (2003: $8.9 million) was recognised from the disposal of certain fixed assets. The tax and minority impacts of these disposals were not material.

Notes to the financial statements

at 31 December 2004

12. Tangible fixed assets (continued)

At 31 December 2004 within MKM, investment grants and subsidies to the value of $70.1 million were deducted against the cost of fixed assets which had a gross carrying value of $269.8 million. Since 1996, capital grants have been received from the German state and federal authorities for approximately 30% of the cost price of additions.

If fixed assets had not been revalued, they would have been included at the following amounts:

	Freehold land & buildings	*Mine development costs*	*Plant & equipment*	*Other*	*Construction in progress*	*Total*
31 December 2004:	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost	472,959	19,685	762,793	232,556	129,822	1,617,815
Depreciation	(179,741)	(2,903)	(401,047)	(106,147)	(10,224)	(700,062)
Net book value	**293,218**	**16,782**	**361,746**	**126,409**	**119,598**	**917,753**
31 December 2003:						
Cost	386,222	16,988	603,830	104,426	76,378	1,187,843
Depreciation	(147,558)	(2,002)	(365,004)	(51,150)	(9,246)	(574,960)
Net book value	**238,664**	**14,985**	**238,827**	**53,275**	**67,132**	**612,882**

Notes to the financial statements

at 31 December 2004

13. Investments

	Cost accounted investments			
	Zhezkazganmunai OJSC $'000	*Kazenergokable JSC $'000*	*Other investments $'000*	*Total $'000*
Cost:				
At 1 January 2004	1,361	704	1,305	3,370
Acquisitions	-	-	3,379	3,379
Additions	139	72	56	267
Disposals	-	-	(229)	(229)
At 31 December 2004	1,500	776	4,511	6,787
Provision for impairment:				
At 1 January 2004	1,361	-	-	1,361
Charge to the profit and loss account	139	-	-	139
At 31 December 2004	1,500	-	-	1,500
Net book value:				
At 31 December 2004	**-**	**776**	**4,511**	**5,287**
At 31 December 2003	**-**	**704**	**1,305**	**2,009**

Cost accounted investments

The Group's 63.3% interest in Zhezkazganmunai OJSC has not been consolidated as the Group has begun the process of liquidating this investment. Its exclusion has no material impact on the consolidated financial statements. As Zhezkazganmunai OJSC is a joint stock company, the Group's exposure is limited to its investment, which has been fully provided for.

Zhezkazganmunai OJSC is an unlisted company incorporated in the Republic of Kazakhstan with share capital and reserves as at 31 December 2004 of $2.2 million. No profit or loss was recorded by this company as it is in the process of liquidation. The company was involved in the provision of exploration services.

The Group has a 9.7% interest in Kazenergokable JSC, a company involved in the production of copper based products in Kazakhstan.

Other investments

As required by the Group's site restoration obligations, the Group is obliged to deposit cash in restricted special purpose bank accounts. The cash deposits restricted for site restoration obligations amounted to $588,000 at 31 December 2004 (2003: $599,000) and have been classified as long term deposits.

As at 31 December 2004 corporate bonds amounting to $3,379,000 were held by MKM in order to fund obligations arising from part-time contracts for older employees.

Notes to the financial statements

at 31 December 2004

14. Stocks

	2004	*2003*
	$'000	*$'000*
Raw materials and consumables	137,174	95,847
Work in progress	104,514	48,041
Finished goods and goods for resale	47,430	14,543
	289,118	**158,431**

There is no material difference between the balance sheet value of stocks and their replacement cost.

15. Debtors

	2004	*2003*
	$'000	*$'000*
Trade debtors	70,762	22,873
Amounts owed by related parties (net of provision for doubtful debts of $19.5 million (2003: $16.9 million))	69,806	146,452
VAT receivable	16,151	17,750
Interest receivable	8,373	7,285
Payment in respect of share capital due from Apro Limited (see Note 29(a))	92	-
Prepayments and accrued income	39,868	634
Other debtors	22,477	23,949
	227,529	**218,943**

Provision for doubtful debts as at 31 December 2004 includes a provision on the debt due from JSC Water/Heat Supply, a related party, amounting to $12.3 million (2003: $10.4 million). Provision for doubtful debts as at 31 December 2004 also includes a provision on the advances paid to Zhezkazganmunai OJSC, a related party, amounting to $7.2 million (2003: $6.5 million).

Notes to the financial statements

at 31 December 2004

16. Current asset investments

	2004 $'000	2003 $'000
Bank deposits	262,333	178,742
Securities, General Asset Management LLC	-	40,770
Securities, Bank TuranAlem Securities JSC	-	40,893
Marketable securities	494	223
	262,827	**260,628**

Bank deposits

Bank deposits are represented by notice deposits held at Bank TuranAlem, Halyk Savings Bank, Centercredit Bank and Alliance Bank and bear interest rates from 7.1% to 9.5%.

General Asset Management LLC

Securities managed by General Asset Management LLC at 31 December 2003 comprise State securities of the Republic of Kazakhstan (amounting to $23.2 million), corporate shares of listed Kazakhstan companies (amounting to $9.9 million) and corporate bonds of listed Kazakhstan companies (amounting to $7.7 million). The securities were purchased in September 2003. In March 2004, Kazakhmys sold the securities for cash and forfeited all interest accrued to that date.

Bank TuranAlem Securities JSC

Securities managed by Bank TuranAlem Securities JSC at 31 December 2003 comprise State securities of the Republic of Kazakhstan (amounting to $14.0 million), corporate shares of listed Kazakhstan companies (amounting to $20.9 million) and corporate bonds of listed Kazakhstan companies (amounting to $6.0 million). The securities were purchased in December 2003. The carrying value of these securities approximates to their market value at 31 December 2003. In March 2004 Kazakhmys sold the securities for cash and forfeited all interest accrued to that date.

17. Creditors: amounts falling due within one year

	2004 $'000	2003 $'000
Bank loans and overdraft	23,222	169,738
Obligations under finance leases	780	-
Trade creditors	82,117	54,810
Amounts owed to related parties	14,934	27,136
Corporation tax	149,400	447
Other taxes and social security costs	4,552	9,904
Accruals and other creditors	36,377	21,577
Proposed interim dividend by Kazakhmys	53,242	-
	364,624	**283,612**

Notes to the financial statements

at 31 December 2004

18. Creditors: amounts falling due after more than one year

	2004 *$'000*	*2003* *$'000*
Bank loans	77,778	-
Obligations under finance leases	233	-
Corporation tax	-	48,168
	78,011	**48,168**

19. Borrowings and finance leases

Details of bank borrowings and finance leases are as follows:

	Maturity	*Within one year* *$'000*	*More than one year* *$'000*	*Total* *$'000*
2003 (all unsecured)				
US Dollar – variable at LIBOR + 2.75%	2004	118,443	-	118,443
US Dollar – variable at LIBOR + 3%	2004	51,295	-	51,295
		169,738	-	169,738
2004 (all secured)				
US Dollar – related party loan at LIBOR + 2.6%	2007	22,222	77,778	100,000
US Dollar – variable at LIBOR + 3.0%	2005	1,000	-	1,000
Euro – finance lease fixed at average 5.5%	2006	780	233	1,013
		24,002	78,011	102,013

US Dollar – related party loan at LIBOR + 2.6%

In 2004, Apro Limited borrowed $100.0 million from a syndicate of banks with Citibank N.A. London Branch as arranger and account bank and Citibank International plc as the agent ("Citibank Loan"). The Company subsequently borrowed $100 million from Apro Limited on the same terms. This Citibank Loan was novated to the Company on 26 January 2005 at which point the loan between the Company and Apro Limited was considered settled. During the period the loan was extended to the Group, it was secured on Kazakhmys' production of copper cathodes.

US Dollar – variable at LIBOR + 3.0%

On 12 April 2004 Kazakhmys entered into an annually renewable secured credit line of up to $34.0 million with Citibank Kazakhstan for the provision of short-term loans, letters of credit and guarantees of up to $10 million. The loan is secured by a pledge over certain of Kazakhmys' assets as agreed with Citibank from time to time.

Notes to the financial statements

at 31 December 2004

19. Borrowings and finance leases (continued)

MKM finance lease commitments

MKM has entered into leasing arrangements for certain of its plant and equipment, under which ownership of the assets transfers to MKM at the end of the lease term. The carrying value of fixed assets under the leases was $10.3 million as at 31 December 2004. The residual term of the leases is an average of two years, and the remaining economic useful life of the assets under lease is eight years.

The total value of the minimum leasing payments was $1.0 million as at 31 December 2004. For the year ended 31 December 2004, the average effective borrowing rate was 5.5 per cent. Obligations under the leasing arrangements are included within creditors.

The maturity profile of bank borrowings is as follows:

	2004	*2003*
	$'000	*$'000*
Between one and two years	66,667	-
Between two and five years	11,111	-
After five years	-	-
	77,778	-
Amounts due within one year	23,222	169,738
	101,000	**169,738**

The maturity profile of finance leases is as follows:

	Minimum lease payments	*Present value of minimum lease payments*
	2004	*2004*
	$'000	*$'000*
Amounts falling due:		
Within one year	954	780
Between one and two years	296	233
	1,250	1,013
Less future finance charges	(237)	-
Present value of finance lease obligations	1,013	1,013
Less amounts due for settlement within one year		(233)
Amounts due for settlement after more than one year		780

Notes to the financial statements

at 31 December 2004

20. Provisions for liabilities and charges

	Site restoration	*Deferred taxation*	*Purchase of geological information*	*Vacation*	*Employee benefit obligations*	*Other*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2004	16,632	2,016	15,518	3,826	19,309	6,429	63,730
Acquisitions	2,089	56,230	-	742	5,862	1,384	66,307
Arising during period	-	-	-	6,465	312	-	6,777
Utilised	-	(6,334)	(421)	(4,972)	(804)	(3,627)	(16,158)
Unwinding of discount	1,402	-	1,308	-	1,617	-	4,327
Net exchange adjustment	1,766	(85)	1,628	460	2,020	345	6,134
At 31 December 2004	**21,889**	**51,827**	**18,033**	**6,521**	**28,316**	**4,531**	**131,117**

(a) Site restoration

The costs of decommissioning and reclamation 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 8.0% per year. The liability becomes payable at the end of the useful life of each mine, which ranges from 1 to 43 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) Purchase of geological information

In accordance with its contracts for subsoil use, the Group is liable to repay the costs for geological information provided by the Government of the Republic of Kazakhstan for licensed deposits. The total amount payable is discounted to its present value using a discount rate of 8.0% per annum. The uncertainties include estimating the amount of the payments and their timing. The amounts are payable prior to 2025.

(c) Vacation

The vacation provision represents the estimated cost of accrued vacation pay based on local legislation and labour contracts in force.

Notes to the financial statements

at 31 December 2004

20. Provisions for liabilities and charges (continued)

(d) Employee benefits

Recognised in the balance sheet

	2004 $'000	2003 $'000
Germany (part-time contracts)	5,862	-
Kazakhstan (post-retirement benefits)	22,454	19,309
	28,316	**19,309**

Germany

In Germany, MKM has obligations arising from part-time contracts for older employees that have been collectively agreed with the employees' trade union. The amount of these obligations has been calculated using a 3.0% discount rate.

Kazakhstan

Kazakhmys provides post-retirement benefits in Kazakhstan.

There are no actuarial gains and losses or prior period service costs which exist as at 31 December 2004.

Key assumptions adopted in calculating the employee benefit liabilities and associated charges for all periods are as follows:

Discount rate	8.0% per annum
Expected rate of annual material assistance increases	6.0% per annum
Expected rate of annual railway ticket price increases	6.0% per annum
Expected rate of increase in annual medical costs	7.5% per annum

(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 includes a provision for restructuring of $3,918,000 relating to the expected costs of restructuring in MKM. The restructuring plan, which was drawn up by MKM management prior to the acquisition of MKM by Kazakhmys, is in respect of the closure costs related to MKM's copper cathode production plant. The restructuring activity is expected to be completed by December 2006.

Notes to the financial statements

at 31 December 2004

20. Provisions for liabilities and charges (continued)

(f) Deferred tax

Recognised deferred tax assets and liabilities

The amounts of deferred taxation provided in the accounts are as follows:

	2004	*2003*
	$'000	*$'000*
Accelerated capital allowances	(10,267)	(16,574)
Loans and borrowings	(48,051)	-
Other timing differences	6,491	14,558
Net deferred tax liability	**(51,827)**	**(2,016)**

Unrecognised deferred tax assets and liabilities:

The amount of deferred tax that has not been provided on revalued fixed assets is $227.7 million (2003: $236.4 million). At present, it is not envisaged that any tax will become payable in the foreseeable future.

Deferred tax has been recognised in respect of the withholding tax of $5.4 million relating to the dividend declared by Kazakhmys and accrued in the Company's balance sheet at 31 December 2004 (see Note 33). The Group has not recognised the deferred tax liability in respect of the remaining distributable reserves of Kazakhmys as no timing difference exists at 31 December 2004 in respect of the distribution of such earnings.

The unprovided deferred tax assets not recognised in the accounts are as follows:

	2004	*2003*
	$'000	*$'000*
Kazakhstan:		
Subsoil contracts	192	-
Germany:		
Corporate income tax	136,383	-
Trade tax	72,521	-
	208,904	-
Total	**209,096**	-

Details of the Group's tax losses are as follows:

Kazakhstan

Deferred tax and excess profit tax are determined with reference to individual subsoil contracts. Deferred tax is also determined for activities outside of the scope of subsoil contracts. For those contracts which are loss making, tax losses are carried forward for seven years after the years in which they have arisen. Unrecognised deferred tax assets for the period ended 31 December 2004 were $192,000 (2003: $nil). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. There are no tax losses that relate to the activities outside of the scope of the subsoil contracts.

Notes to the financial statements

at 31 December 2004

20. Provisions for liabilities and charges (continued)

(f) Deferred tax (continued)

Germany

MKM has, at 31 December 2004, recognised corporate income tax losses of $511.0 million and trade tax losses of $448.0 million. Losses can be carried forward to be used against future taxable profits to the extent of reducing taxable income to €1 million in any one year. Where income exceeds €1 million, tax losses can reduce the excess by up to 60.0%. 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. Refer to Note 28(c) for further details.

Notes to the financial statements

at 31 December 2004

21. Share capital

As explained in Note 1, a merger accounting basis of preparation has been applied in the presentation of the consolidated financial statements. This basis presents the results of the Group as if the Company had always been the parent company. This has the effect that, despite the Company not being incorporated until 15 July 2004, the equity share capital shown in the consolidated financial statements is that of the Company following the share exchange with the shareholders of Kazakhmys.

	Number	*£'000*	*$'000*
Authorised			
Ordinary shares of £5.00 ($9.47) each	20,000,000	100,000	189,400
Special share of £1.00 ($1.89) each	1	-	-
Redeemable preference shares of £1.00 ($1.84) each	50,000	50	92
	20,050,001	**100,050**	**189,492**
Allotted and called up share capital			
As at 31 December 2003	**16,150,588**	**80,753**	**152,965**
As at 31 December 2004	**16,200,589**	**80,803**	**153,057**

Allotted share capital is analysed as follows:

	Number	*£'000*	*$'000*
Ordinary shares of £5.00 each issued and fully paid, issued in exchange for issued share capital of Kazakhmys			
At 31 December 2003 and 2004	16,150,588	80,753	152,965
Special share of £1.00 each			
Issued on 19 November 2004	1	-	-
At 31 December 2004	1	-	-

	Number	*£'000*	*$'000*
Redeemable preference shares of £1.00 each			
Issued on 22 October 2004	50,000	50	92
At 31 December 2004	50,000	50	92

Notes to the financial statements

at 31 December 2004

21. Share capital (continued)

On incorporation, the Company issued one ordinary share of £1 each to each of the two subscribers to the Memorandum of Association. On 28 September 2004, eight ordinary shares of £1 each were issued at par. Pursuant to a special resolution of the Company dated 22 October 2004, all the issued and unissued ordinary shares of £1 each of the Company were consolidated and divided into 10,000 ordinary shares of £5 each and the authorised share capital of the Company was increased to £100,050,000 by the creation of 19,990,000 ordinary shares of £5 each and 50,000 redeemable preference shares of £1 each. Pursuant to a written resolution dated 19 November 2004, the authorised share capital of the Company was increased from £100,050,000 to £100,050,001 by the creation of one special share of £1

Between 23 November 2004 and 23 August 2005, a total number of 16,148,948 ordinary shares of £5 each in the Company were issued and a further 1,638 ordinary shares of £5 each were deemed to have been issued pursuant to share exchange agreements in relation to the acquisition of Kazakhmys. As the 1,638 ordinary shares of £5 each will be issued after 23 September 2005, the date on which the share split took place in which the Company's share capital was redenominated into ordinary shares of 20 pence each, the actual number of shares to be issued will be 40,950 ordinary shares of 20 pence each.

At general meetings of the Company each member present or by proxy has one vote on a show of hands, and on a poll every member who is present in person or by proxy has one vote for every ordinary share.

On 19 November 2004, a special share of £1 was issued to Perry Partners S.A. in connection with the re-financing by Credit Suisse First Boston, London Branch, of debt owed by Perry Partners S.A. The beneficial owner of the share was Perry Partners S.A. although the holder is Credit Suisse First Boston, London Branch, by way of a pledge agreement. The special share was the sole share of its class, and whilst not giving any form of control over the Company, it gave the holder the right of veto over a limited number of transactions by the Company. The special share did not qualify for dividends. On the initial public offering of the Company's ordinary shares on the London Stock Exchange, the consent rights attaching to it ceased to apply. The special share was redeemed on 17 November 2005.

On 22 October 2004, 50,000 redeemable preference shares of £1 each were allotted by the Company and issued to Apro Limited at par on the condition that they were to be redeemed by the Company no later than 31 December 2005. The redeemable preference shares had limited rights and did not qualify for dividends or voting. Having been fully paid up, these shares were redeemed on 26 September 2005 out of distributable profits of the Company in preparation for the initial public offering.

Notes to the financial statements

at 31 December 2004

22. Reconciliation of movement in shareholders' funds

	Share capital $'000	*Revaluation reserve $'000*	*Reserve fund $'000*	*Profit and loss account $'000*	*Total $'000*
At 1 January 2003	**152,965**	**781,892**	**2,929**	**368,374**	**1,306,160**
Realised revaluation surplus	-	(71,770)	-	71,770	-
Currency translation difference on foreign currency net investments	-	65,717	-	57,622	123,339
Capital transactions between subsidiary and shareholders	-	-	-	76,827	76,827
Transfer to reserve fund	-	-	11,831	(11,831)	-
Retained profit for the year	-	-	-	112,627	112,627
At 31 December 2003	**152,965**	**775,839**	**14,760**	**675,389**	**1,618,953**
Issue of redeemable preference shares	92	-	-	-	92
Realised revaluation surplus	-	(91,833)	-	91,833	-
Currency translation difference on foreign currency net investments	-	75,107	-	94,095	169,202
Capital transactions between subsidiary and shareholders	-	-	-	(156,891)	(156,891)
Retained profit for the year	-	-	-	197,608	197,608
At 31 December 2004	**153,057**	**759,113**	**14,760**	**902,034**	**1,828,964**

Revaluation reserve

The revaluation reserve has arisen from the revaluation of tangible fixed assets as at 1 January 2002 (see Note 12). The realised revaluation surplus during the year represents the additional depreciation of $74.1 million (2003: $66.8 million) recognised in the profit and loss account for revalued assets, and the difference of $17.7 million (2003: $4.9 million) between the historic and revalued net book values of assets disposed during the year.

Reserve fund

In accordance with legislation of the Republic of Kazakhstan, the non-distributable reserve fund comprises proscribed transfers from retained earnings amounting to 15.0% of Kazakhmys' capital.

Notes to the financial statements

at 31 December 2004

23. Reconciliation of operating profit to operating cash flows

	2004 $'000	*2003 $'000*
Operating profit	590,224	249,519
Depreciation of tangible fixed assets	160,136	133,588
Amortisation of intangible assets	1,031	743
Write off of fixed assets and trade debtors	41,868	7,823
Increase in stocks	(28,460)	(6,121)
Decrease/(increase) in debtors	48,795	(136,512)
(Decrease)/increase in creditors	(64,583)	17,371
(Decrease)/increase in provisions	(3,035)	7,051
Other non-cash items	(12,222)	(6,253)
Net cash inflow from operating activities	**733,754**	**267,209**

24. Analysis of movement in net funds

	At 1 January 2004 $'000	*Cash flow $'000*	*Acquired with subsidiary (excluding cash acquired) $'000*	*Foreign exchange differences $'000*	*At 31 December 2004 $'000*
Cash at bank and in hand	7,711	60,057	-	3,421	71,189
Debt due within one year	(169,738)	231,074	(82,113)	(2,445)	(23,222)
Debt due after more than one year	-	(77,778)	-	-	(77,778)
Finance leases	-	-	(1,013)	-	(1,013)
	(162,027)	213,353	(83,126)	976	(30,824)
Current asset investments	260,628	(1,381)	-	3,580	262,827
Net funds	**98,601**	**211,972**	**(83,126)**	**4,556**	**232,003**

Cash at bank as at 31 December 2004 includes $30.7 million (2003: $nil) as security for letters of credit which are in place to cover contractual liabilities of the Group that are to be settled during 2005. These funds are considered to be restricted in their use as the funds are not freely available to the Group until such time as security for letters of credit is not required.

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at 31 December 2004

25. Reconciliation in net cash flow to net funds

	2004 *$'000*	*2003* *$'000*
Increase/(decrease) in cash in the year	60,057	(100,481)
Cash outflow from decrease in debt	153,296	37,248
Cash (inflow)/outflow from management of liquid reserves	(1,381)	153,797
Increase in net funds resulting from cash flows	**211,972**	**90,564**
Current asset investments, loans and finance leases acquired with subsidiary	(83,126)	-
Foreign exchange differences	4,556	7,259
Increase in net funds for the year	**133,402**	**97,823**
Net funds at the beginning of the year	98,601	778
Net funds at the end of the year	**232,003**	**98,601**

26. Acquisitions

(a) ***Apro Limited ("Apro")***

On 31 December 2004 the Company acquired the sales business of Apro for a consideration of $1.0 million. A fair value of $504,000 was attributed to the tangible fixed assets within Apro, which was equal to the net book value of these assets. Additionally, $71,000 was attributed to various deposits held by Apro which were acquired by the Company.

Accordingly, $425,000 of goodwill arose on the acquisition which has been included within intangible assets in Note 11.

(b) ***MKM Mansfelder Kupfer und Messing GmbH Hettstedt***

On 15 December 2004, the Group acquired 100% of the ordinary shares of MKM, an unlisted company based in Germany. MKM produces and sells copper and copper alloy semi-finished products worldwide for various applications and industries.

At the date of acquisition, MKM had net identifiable liabilities and under an agreement with the previous owners it was sold to the Group for a nominal consideration of €4.00 for the shares, certain shareholder loans, certain intellectual property, three MKM trading companies (SARL Lamitref France, Lamitref UK Ltd and Lamitref Italia Srl) and the payment of certain taxes in connection with the acquisition. As the transaction was conducted at the year end there was no material impact of acquiring MKM on the Group's consolidated profit and loss account.

Notes to the financial statements

at 31 December 2004

26. Acquisitions (continued)

(b) MKM Mansfelder Kupfer und Messing GmbH Hettstedt (continued)

The fair value of the identifiable assets and liabilities of MKM as at the date of acquisition were:

	Book value *$'000*	*Revaluation* *$'000*	*Fair value to Group* *$'000*
Intangible assets	1,053	(1,053)	-
Tangible fixed assets	202,077	-	202,077
Investments	3,379	-	3,379
Stocks	84,711	-	84,711
Debtors	49,305	-	49,305
Cash	7,903	-	7,903
Total assets	*348,428*	*(1,053)*	*347,375*
Trade creditors	(42,387)	-	(42,387)
Loan from Kazakhmys	(40,882)	-	(40,882)
Other loans and borrowings	(209,245)	126,119	(83,126)
Provisions for liabilities and charges	(18,256)	(48,051)	(66,307)
Total liabilities	*(310,770)*	*78,068*	*(232,702)*
Net assets acquired			**114,673**
Negative goodwill arising on acquisition			(111,327)
Total cost of acquisition			**3,346**

The cash inflow on acquisition was as follows:

	$'000
Total consideration paid	(3,346)
Cash acquired with subsidiaries	7,903
Total cash inflow	**4,557**

Fair value adjustments relate to the transfer to the Group of a bank loan and former shareholder loan with outstanding balances of €138.1 million and €15.5 million, respectively, for consideration of €61.0 million and €1, respectively, together with the associated deferred tax in respect of these transfers.

Under an agreement with the previous owners, the Group is obliged to maintain the current number of employees until 31 December 2006. The negative goodwill that has arisen on the acquisition is as a result of the consideration as compared to the fair value of the net assets acquired. The consideration takes into account future commitments the Group has given in respect of investment and employment levels (see Note 28(h)).

From the date of acquisition to 31 December 2004, MKM had no material impact on the cash flows of the Group. MKM reported a loss after taxation of €14.2 million in the period from 1 January 2004 to 15 December 2004 (year ended 31 December 2003: loss of €32.0 million). These results are derived from MKM's financial statements prepared in accordance with its previous accounting policies.

Notes to the financial statements

at 31 December 2004

27. Financial instruments

The Group's accounting policies with regard to financial instruments are detailed in Note 1. The Group does not trade in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in FRS 13 '*Derivatives and other Financial Instruments: Disclosures*'. For this purpose non-equity shares issued by the Company are dealt with in the disclosures in the same way as the Group's financial liabilities but are separately disclosed. As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

(a) Derivatives, financial instruments and risk management

In general, the Group does not use derivative instruments and financial instruments to manage its exposure to fluctuations in foreign currency rates, interest rates and commodity prices, with the exception of limited hedging at MKM, which uses 'back-to-back' commodity hedging to manage its exposure to copper prices and forward contracts to manage its exposure to the US Dollar.

(b) Foreign currency risk

The Group has translational currency exposures. Such exposures arise from sales or purchases by an operating company in currencies other than the company's functional currency. The currencies giving rise to this risk are primarily the US Dollar for turnover, certain cash deposits and loans of Kazakhmys, and the US Dollar in respect of certain sales of MKM. The Group does not enter into hedging positions in respect of its exposure to foreign currency risk, with the exception of MKM as noted above.

(c) Commodity price risk

The Group is exposed to the effects of fluctuations in the price of copper, which is quoted in US Dollars on the international markets. The Group has prepared a business plan including sensitivity analyses in respect of various levels of copper prices in the future.

Kazakhmys does not hedge its exposure to the risk of fluctuations in the price of copper and other minerals. MKM uses commodity futures to manage its exposure to changes in the price of copper.

(d) Credit risk

The Group does not require collateral in respect of financial assets. It is the Group's policy that credit evaluations are performed on all customers, other than related parties, who wish to trade on credit terms whereby they require credit over a certain amount. The Group regularly monitors its exposure to bad debts in order to minimise this exposure. At the balance sheet date there was a significant concentration of credit risk in respect of amounts receivable from related parties.

The maximum exposure with respect to credit risk arising from the Group's other financial assets is represented by the carrying amount of each financial asset on the balance sheet.

(e) Interest rate risk

The Group has financial assets and liabilities, which are exposed to interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group does not have a formal policy of determining how much of the Group's exposure should be at fixed or at variable rates and the Group does not use hedging instruments to minimise the exposure. However, at the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group are non–interest bearing and are therefore not subject to interest rate risk.

Notes to the financial statements

at 31 December 2004

27. Financial instruments (continued)

(f) Price risk

The Group holds German securities on behalf of employees in order to fund its obligations arising from part time contracts for the older employees. In addition the Group holds long and short term investments and marketable securities. The Group is therefore exposed to fluctuations in the market price of these securities

(g) Interest rate and currency profile

The interest rate profile of the Group's financial assets and liabilities at 31 December 2004 and 2003 was as follows:

31 December 2004:	*Total* *$'000*	*Fixed rate financial liabilities* *$'000*	*Floating rate financial liabilities* *$'000*	*Non-interest bearing liabilities* *$'000*
US Dollar	101,000	-	101,000	-
Euro	1,013	1,013	-	-
UK Sterling (non-equity shares)	92	-	-	92
Gross financial liabilities	**102,105**	**1,013**	**101,000**	**92**

31 December 2004:	*Total* *$'000*	*Fixed rate financial assets* *$'000*	*Equity investment* *$'000*	*Non-interest bearing assets* *$'000*
US Dollar	262,811	262,821	-	-
Euro	64,907	64,907	-	-
KZT	11,159	10,202	802	155
Other	426	416	-	-
Gross financial assets	**339,303**	**338,346**	**802**	**155**

31 December 2003:	*Total* *$'000*	*Floating rate financial liabilities* *$'000*
US Dollar	169,738	169,738
Gross financial liabilities	**169,738**	**169,738**

Notes to the financial statements

at 31 December 2004

27. Financial instruments (continued)

(g) Interest rate and currency profile (continued)

31 December 2003:	*Total* *$'000*	*Fixed rate financial assets* *$'000*	*Equity investment* *$'000*	*Non-interest bearing assets* *$'000*
US Dollar	179,458	179,458	-	-
KZT	90,740	73,723	16,852	165
Russian Rouble	66	66	-	-
Other	84	84	-	-
Gross financial assets	**270,348**	**253,331**	**16,852**	**165**

The fixed rate financial liabilities as at 31 December 2004 relate to the finance leases entered into by MKM. Details of the interest rate and the remaining period of the leases are included in Note 19.

The interest rate on floating rate liabilities is set with reference to US Dollar LIBOR rates.

(h) Currency exposures

The main functional currency of the Group is the Kazakhstani Tenge, with MKM having a Euro functional currency and the Company having a US Dollar functional currency.

The analysis 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 profit and loss account.

As at 31 December 2004 and 2003, these exposures were as follows:

2004:	*US Dollar* *$'000*	*UK Sterling* *$'000*	*Russian Rouble* *$'000*	*Other* *$'000*	*Total* *$'000*
US Dollar	N/A	(4,811)	-	-	(4,811)
Euro	(10,407)	-	-	6,127	(4,820)
KZT	221,514	-	1,057	6,161	228,732
	211,107	**(4,811)**	**1,057**	**12,288**	**219,641**

2003:	*US Dollar* *$'000*	*Russian Rouble* *$'000*	*Other* *$'000*	*Total* *$'000*
KZT	113,339	991	958	115,288
	113,339	**991**	**958**	**115,288**

Notes to the financial statements

at 31 December 2004

27. Financial instruments (continued)

(i) Borrowing facilities

The Group's undrawn committed borrowing facilities available to it were as follows:

Expiry date:	*2004* *$'000*	*2003* *$'000*
Within one year	59,000	-
More than one year	-	-
	59,000	**-**

(j) Fair value of financial assets and liabilities

For those investments which are actively traded on a stock exchange the fair value is based on market prices. In other cases fair value has been determined as of the balance sheet date by discounting the estimated future cash flows using market interest rates for similar instruments. As a result of this exercise the directors have determined that the fair value of the Group's financial assets and liabilities, comprising cash, debtors, short and long term investments, creditors and borrowings, approximates to the carrying amounts.

(k) Hedging

During the two years ended 31 December 2004, the only hedges entered into by the Group were commodity and foreign exchange forward contracts to manage MKM's copper purchases and US Dollar currency exposures, respectively. Gains and losses on instruments used for hedging are not recognised until the hedged position matures. The carrying value of hedges in the accounts is thus nil.

An analysis of these unrecognised gains and losses is as follows:

	Gains *$'000*	*Losses* *$'000*	*Total* *$'000*
Unrecognised gains/(losses) on hedges at 31 December 2004	**457**	**(203)**	**253**
(all of which are expected to be recognised in 2005)			

28. 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 2004, the Group was not involved in 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 for each reporting period. As the tax system and tax legislation in Kazakhstan have been in force for only a relatively short time, those uncertainties are substantially greater than typically found in countries with more developed tax systems. Applicable taxes include value added tax, corporate income tax and excess profits tax. Laws relating to applicable taxes are not clearly determinable and legislation is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. The uncertainty of application and the evolution of tax laws create a risk of additional tax payments having to be made by the Group, which could have a material adverse effect on the Group’s financial position and results of operations.

In relation to excess profits tax, the tax law gives no explicit guidance on how the tax base should be determined for individual subsurface use contracts relevant to certain members of the Group. Prior to 2002 it was not clear from the contracts themselves as to how profitability should be allocated to the Group’s mining operations. In the event of a successful challenge by the tax authorities, the Group may be liable for additional payments of excess profits tax. Depending on the interpretation adopted and the amounts, if any, that are involved, this could have a significant adverse impact on the Group’s financial position and on its profit for a reporting period. Under such circumstances, there would also be a consequential significant adverse impact on all subsequent periods due to the cumulative nature of the excess profits tax calculations.

(ii) Status of tax audits

In 2004, the Kazakh tax authorities conducted a tax audit on Kazakhmys for the periods 1998 to 2002. For all taxes, the fact that the tax authorities have conducted an audit of a particular period does not prevent them from revisiting that period and raising an additional assessment. In addition, Kazakhstan’s tax system does not have the concept of the tax authorities giving legally binding rulings on tax issues that are put to them.

(iii) Period for additional tax assessments

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period.

(iv) Penalties/charges

Tax regulation and compliance is subject to review and investigation by a number of levels of the tax authorities and the Courts who may impose severe fines, penalties and interest charges.

Notes to the financial statements

at 31 December 2004

28. Commitments and contingencies (continued)

(b) Kazakhstan taxation contingencies (continued)

(v) Possible additional tax liabilities

The directors believe that the Group is in substantial compliance with the tax laws and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant government 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 significant 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 management to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(c) German taxation contingencies

(i) Status of tax audits

The German tax authorities have conducted a tax audit of MKM for 1998, however, the years from 1999 to 2004 remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

(ii) Payments of future utilised tax losses

In accordance with the privatization agreement between the successor body of the former state-controlled shareholder in MKM, Beteiligungs-Management-Gesellschaft Berlin GmbH ("BMGB") and Lamitref Holding B.V., dated 18 December 1995, to the extent that MKM utilises tax losses against taxable income, it is required to make certain agreed upon payments to BMGB. As MKM has reported tax losses in recent years, no payment to date to BMGB has been necessary. The amounts which are potentially payable to BMGB are:

- 50.0% of the tax saving arising from the utilization of tax losses up to a maximum of $242 million which existed as at 31 December 1998 against corporate income tax ($32 million);
- 100.0% of the tax saving arising from the utilization of tax losses which existed as at 31 December 1998 against trade tax ($52.6 million); and
- up to 100.0% of the tax savings arising from the utilization of tax losses which existed as at 31 December 1998 exceeding $242 million against corporate income tax ($36.2 million).

Any such payment is due on 31 December, two years following the year in which the tax losses are utilised, if the annual tax declaration is delivered before 1 October of the year following that in which the loss was utilised, but not before a tax assessment notice has been issued.

No deferred tax asset has been recognised in respect of the tax losses at MKM (refer to Note 20(f)), and consequently no corresponding liability in respect of payments to BMGB has been recognised.

Notes to the financial statements

at 31 December 2004

28. Commitments and contingencies (continued)

(d) Insurance contingency

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 does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. The Group is self-insured.

Until the Group obtains adequate insurance coverage, 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 the Republic of Kazakhstan are continually evolving. The outcome of the environmental regulations under proposed or any future environmental legislation cannot be estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The directors believes that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements.

The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see Note 20(a)), is based upon the estimation of specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

(f) Contingency relating to use of subsoil 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 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. Expenditure commitments under these subsoil agreements are included in Note 28(i). The contracts will expire at varying dates up to 2025.

(g) Obligations to pension fund beneficiaries

The pension scheme is run by CJSC ABN AMRO Bank Kazakhstan, and is termed the "Accumulating Pensions Funds of Kazakhmys Corporation" (the "Fund"). The Fund is a corporate accumulative pension fund established under the laws of Kazakhstan. Certain of Kazakhmys' employees and former employees are beneficiaries, and are entitled to an amount comprising the indexed value of their contributions. Under Kazakh law, the Fund calculates the benefits of its members on an annual basis.

The Fund's rules set out that the payment obligation to fund beneficiaries are based on the nominal value of contributions, indexed in accordance with a formula set out in the Fund's rules. If the assets of the Fund are insufficient to cover the payment obligations to the beneficiaries, the voting shareholders of the Fund (including Kazakhmys) are jointly liable for the shortfall.

The valuation as at 31 December 2004 showed the Fund's payment obligations were $82 million, and the fair market value of the Fund's assets amounted to $97 million.

Notes to the financial statements

at 31 December 2004

28. Commitments and contingencies (continued)

(h) Commitments in respect of the acquisition of MKM

In the context of its acquisition of MKM in December 2004, the Group is committed to invest approximately $43.0 million in capital expenditure by 31 December 2008, inject working capital of $37.0 million and ensure MKM employs at least 1,006 employees up to 31 December 2006.

(i) Other commitments

The table below sets out the Group's expenditure commitments with their respective maturity profiles as at 31 December 2004:

	Less than one year	*One to three years*	*Three to five years*	*More than five years*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Training programmes - contracted	607	1,843	1,826	4,796	9,072
Capital expenditure - contracted	165,938	246,491	151,103	942,966	1,506,498
Capital expenditure - committed	-	-	19,523	-	19,523
Purchase commitments	73,786	24,053	-	-	97,839
	240,331	**272,387**	**172,452**	**947,762**	**1,632,932**

(i) Training programmes - contracted

Kazakhmys has obligations under all of its subsoil contracts in Kazakhstan to invest in training the local Kazakh workforce. In about half of its contracts and licences, minimal obligations have been agreed as part of the subsoil contract. In the other contracts, these training obligations are calculated as a function of the revenues or expenses associated with such contracts. In such instances, this amount is generally not less than either 0.1% of the revenues, operational expenses or extraction expenses associated with the relevant contract.

(ii) Capital expenditure - contracted

In addition, Kazakhmys has capital expenditure obligations under its subsoil contracts. This expenditure is invested in community related projects, and includes improvements to social sphere assets, infrastructure and public utilities.

(iii) Capital expenditure – committed

Kazakhmys has a capital commitment for the construction of a new tailings dump at Zhezkazgan at an expected construction cost of $19.5 million. The new tailings dump is expected to be completed by 2008.

(iv) Purchase commitments

The Group has commitments relating to contracts which were entered into prior to 31 December 2004 for the purchase of equipment and materials, and for the leasing of equipment.

Notes to the financial statements

at 31 December 2004

28. Commitments and contingencies (continued)

(j) Guarantee of employee loans

Kazakhmys' employees are permitted to enter into loan arrangements with banks on normal commercial terms under which Kazakhmys has guaranteed to deduct repayments from employees' remuneration in accordance with agreed schedules of repayment. The total value of this guarantee amounted to $7.1 million (2003: $6.4 million) as at 31 December 2004.

(k) Financial covenants

Kazakhmys has various credit arrangements with banks under which it must comply with financial covenants thereto. The nature of such covenants is in line with prevailing market practice in Kazakhstan.

29. Related parties transactions

The following table provides the total monetary value of transactions which have been entered into with related parties for the year ended 31 December 2004:

	Sales to related parties $'000	*Purchases from related parties $'000*	*Amounts owed by related parties $'000*	*Amounts owed to related parties $'000*
Related entities				
Samsung Corporation	-	5,359	2	281
HOZU Corporation	-	-	14,213	-
Apro Limited	1,015,121	1,432	54,656	114,653
Zhezkazganmunai OJSC	-	-	7,199	-
Companies under trust management	6,959	5,512	13,273	-
	1,022,080	**12,303**	**89,343**	**114,934**

(a) Related entities

Samsung Corporation

Purchases from and balances owed to Samsung Corporation relate to management service fees. Sales and balances owed by Samsung Corporation relate principally to the sale of silver.

HOZU Corporation

HOZU Corporation is a company in which Mr Vladimir Ni, a director of the Company, is a director. As at 31 December 2004, there was an amount outstanding of $14.2 million (2003: $7.6 million) which relates to an interest free loan which will mature on 31 December 2005 and is secured on property owned by HOZU Corporation. As at 31 December 2004, the fair value of the collateral against the loan exceeded the amount outstanding.

Notes to the financial statements

at 31 December 2004

29. Related parties transactions (continued)

(a) Related entities (continued)

Apro Limited ("Apro")

In 2002, the Group entered into an exclusive purchasing agreement with Samsung Corporation and Harper Finance Limited, collectively referred to as the Consortium, providing it with the right to buy all of Kazakhmys' products. The Consortium appointed Apro to sell Kazakhmys' exported products. Under this arrangement Apro purchased Kazakhmys' products as principal and sold them on to end customers. Under the purchasing agreement, Apro purchased products from the Group at a discount to the prevailing London Metal Exchange price. Apro retained a fee based on a percentage of turnover. The exclusive purchasing agreement ceased in December 2004 and the Company acquired certain assets from Apro on 31 December 2004. Sales to Apro account for the significant proportion of Group revenues in the two years ended 31 December 2004. Other operating income in the year ended 31 December 2004 also include a sales service agreement fee payable by Apro of $13.4 million (the outstanding balance of $10.3 million at 31 December 2004 was settled on 9 March 2005). Balances due from Apro in respect of these trading arrangements are included within debtors.

As at 31 December 2004 amounts owed to Apro included a $100.0 million loan, which bore interest at LIBOR plus 2.6% per annum. The original loan between Apro and the syndicate of banks was novated to the Company on 26 January 2005 at which point the loan between the Company and Apro was deemed to be settled. This balance has been included within borrowings as at 31 December 2004 (refer to Note 19). Amounts owed by Apro as at 31 December 2004 also include $92,000 million in respect of unpaid share capital for the redeemable preference shares (see Notes 15 and 21).

As at 31 December 2004 payables to Apro included $1.0 million of consideration in respect of the assets transferred to the Company, $186,000 in respect of a management fee and $150,000 in respect of interest on the related party loan. All balances have been settled.

(b) Companies under the trust management agreements

Kazakhmys operates a number of companies under trust management agreements with local authorities. The activities provided include heating distribution systems, road maintenance and aviation services. The purpose of these agreements is to provide public and social services without any financial benefit for Kazakhmys. Transactions between Kazakhmys and these companies are conducted on an arm's length basis.

Notes to the financial statements

at 31 December 2004

30. Company intangible fixed assets

	Positive goodwill
	$'000
Cost:	
At date of incorporation	-
Acquisition	425
At 31 December 2004	425
Amortisation:	
At date of incorporation	-
At 31 December 2004	-
Net carrying amount:	
At 31 December 2004	**425**
At date of incorporation	**-**

The positive goodwill relates to the transfer of Apro's business to the Company on 31 December 2004 and represents the difference between the consideration of $1.0 million payable over the fair value of assets acquired (see Note 11).

31. Company tangible fixed assets

	Motor vehicles	*Office equipment*	*Total*
	$'000	*$'000*	*$'000*
Cost:			
At date of incorporation	-	-	-
Acquisition	119	384	503
At 31 December 2004	119	384	503
Depreciation:			
At date of incorporation	-	-	-
At 31 December 2004	-	-	-
Net book value:			
At 31 December 2004	**119**	**384**	**503**
At date of incorporation	**-**	**-**	**-**

Notes to the financial statements

at 31 December 2004

32. Company fixed asset investments

	$'000
Cost	
At date of incorporation	-
Ordinary shares issued during the period pursuant to share exchange agreements	151,455
Ordinary shares to be issued pursuant to share exchange agreements	1,510
At 31 December 2004	**152,965**

At 31 December 2004, the Company held 15,991,139 shares (now 9,594,683,400 units) in Kazakhmys, being 96.44% of Kazakhmys' equity. The Company has taken advantage of merger relief available under Section 131 of the Companies Act 1985 and has recorded the cost of investment at the par value of the ordinary shares issued.

A further 159,447 shares (now 95,668,200 units) are expected to be acquired after 31 December 2004 pursuant to the share exchange agreements, and have been included within the above investment balance consistent with merger accounting principles (see Note 1(a)). Following the acquisition of the remaining shares pursuant to the share exchange agreements, the Company's interest in Kazakhmys is expected to be 97.40%.

33. Company debtors

Amounts falling due within one year:

	2004 *$'000*
Amounts due from directors	9
Dividend receivable from subsidiary undertaking (net of withholding tax of $5.4 million)	103,419
Loan to subsidiary undertaking	22,222
Payment in respect of share capital due from Apro	92
Other amounts due from Apro	10,267
Other debtors	173
	136,182

Amounts falling due after more than one year:

	2004 *$'000*
Loan to subsidiary undertaking	77,778
Other debtors	51
	77,829

Notes to the financial statements

at 31 December 2004

34. Company creditors: amounts falling due within one year

	2004 *$'000*
Corporation tax	3,876
Loan payable to Apro	100,000
Purchase consideration payable to Apro	1,000
Other amounts payable to Apro	336
Other creditors and accruals	821
	106,033

35. Company reconciliation of movement in shareholders' funds

	Share capital *$'000*	*Profit and loss account* *$'000*	*Total* *$'000*
At date of incorporation	-	-	-
Issue of redeemable preference shares	92	-	92
Shares issued pursuant to share exchange agreements	152,965	-	152,965
Profit for the period	-	111,724	111,724
At 31 December 2004	**153,057**	**111,724**	**264,781**

No profit and loss account is presented for Kazakhmys PLC as permitted by Section 230 of the Companies Act 1985.

Notes to the financial statements

at 31 December 2004

36. Principal subsidiaries

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table.

	Principal activity	*Country of incorporation*	*Percentage equity interest At 31 December 2004 %*	*Percentage equity interest At 31 December 2003 %*
Kazakhmys Corporation LLC	Mining	Kazakhstan	97.4%	97.4%
MKM Mansfelder Kupfer und Messing GmbH (*)	Copper processing	Germany	97.4%	-
Kaz Kupfer GmbH (*)	Holding company	Germany	97.4%	-
Zhezkazgan Geology JSC (*)	Exploration	Kazakhstan	63.3%	63.3%
Pension Fund Kazakhmys JSC (*)	Pension fund	Kazakhstan	95.5%	95.5%
Insurance Company LLP (*)	Insurance	Kazakhstan	97.4%	97.4%
Roskazmed LLP(*)	Dormant	Russia	48.7%	-

* indirectly held through Kazakhmys

37. Ultimate controlling party

The ultimate controlling party of the Company is Mr Vladimir Kim whose beneficial interest in the Company is held through controlling shareholdings in Cuprum Holding B.V. (Netherlands) and Harper Finance Limited, both of which were significant shareholders in the Group before and after the share exchange as explained in Note 1(a).

38. Events after the balance sheet date

(a) Redemption of preference shares

On 22 October 2004, 50,000 redeemable preference shares of £1 each were allotted by the Company and issued to Apro Limited at par on the condition that they were to be redeemed by the Company no later than 31 December 2005. Having been fully paid up, these shares were redeemed on 26 September 2005 out of distributable profits of the Company in preparation for the initial public offering of the Company's ordinary shares on the London Stock Exchange.

(b) Changes to authorised and issued share capital

Pursuant to a special resolution passed on 23 September 2005 it was resolved *inter alia* to:

- divide the £50,000 nominal amount of authorised share capital of the Company formerly divided into 50,000 redeemable preference shares of £1 each into 10,000 ordinary shares of £5 each;
- subdivide each ordinary share of £5 each in the capital of the Company into 25 ordinary shares of 20 pence each, having attached thereto the rights specified in the articles of association adopted by the same special resolution; and
- increase the authorised share capital of the Company from £100,050,001 to £150,000,001 by the creation of 249,750,000 ordinary shares.

Notes to the financial statements

at 31 December 2004

38. Events after the balance sheet date (continued)

(c) Allotment of ordinary shares

Between 24 November 2004 and 23 August 2005, a total number of 16,148,948 ordinary shares of £5 each in the Company were allotted in accordance with the share exchange agreements in return for non-cash consideration. No further ordinary shares of £5 each pursuant to the share exchange agreements have been allotted subsequent to 23 August 2005. However, 40,950 ordinary shares of 20 pence each (equivalent to 1,638 ordinary shares of £5 each pursuant to the share split which took place on 23 September 2005) remain to be allotted pursuant to the share exchange agreements pending regulatory consent.

On 26 September 2005, the Company issued 5,314,425 ordinary shares of 20 pence each in consideration for the transfer to it of 127,546,200 units (equivalent to 212,577 shares) in Kazakhmys from Kinton Trade Limited. This was an exchange rate equivalent to that applied pursuant to the share exchange offer made by the Company in November 2004 when it first acquired units in Kazakhmys.

(d) Listing of ordinary shares on the London Stock Exchange

On 12 October 2005, the Company's ordinary shares were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange. Following the exercise of an over-allotment option, the global offer comprised 140,849,373 ordinary shares of 20 pence each, of which 58,434,025 new ordinary shares of 20 pence each were issued by the Company and 82,415,348 were ordinary shares of 20 pence each sold by existing shareholders. Gross proceeds of $553.7 million (£315.5 million) were received by the Company following the issue of the new ordinary shares.