

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EURASIAN NATURAL RESOURCES CORPORATION PLC ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the consolidated financial statements of Eurasian Natural Resources Corporation PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes to the consolidated financial statements. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Eurasian Natural Resources Corporation PLC for the period ended 31 December 2007 and on the information in the Remuneration Report that is described as having been audited.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the consolidated financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive Officer's Statement, Our Leadership Team, the Business Review and the Corporate Governance Report that is cross referenced from the Directors' Report.

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises the Chairman's Statement, the Chief Executive Officer's Statement, the Business Review, the Directors' Report, the unaudited part of the Remuneration Report and all other information referred to on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the consolidated 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 consolidated 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 consolidated financial statements.

### OPINION

In our opinion:

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

### PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors

London

29 April 2008

## CONSOLIDATED INCOME STATEMENT

In millions of US\$	Note	Years ended 31 December	
		2007	2006
Revenue	4,6	<b>4,106</b>	3,256
Cost of sales	7	<b>(1,701)</b>	(1,542)
<b>Gross profit</b>		<b>2,405</b>	1,714
Distribution costs	8	<b>(373)</b>	(407)
Selling, general and administrative expenses	9	<b>(606)</b>	(290)
Other operating expenses – net	10	<b>(5)</b>	(20)
<b>Operating profit</b>		<b>1,421</b>	997
Analysed as:			
EBITDA before exceptional items*	35	<b>1,906</b>	1,256
Depreciation and amortisation		<b>(303)</b>	(253)
Exceptional items	9	<b>(182)</b>	(6)
Finance income	13	<b>58</b>	24
Finance costs	14	<b>(158)</b>	(50)
<b>Profit before income tax</b>		<b>1,321</b>	971
Income tax expense	15	<b>(507)</b>	(285)
<b>Profit for the year</b>		<b>814</b>	686
<b>Profit is attributable to:</b>			
Equity shareholders of the Group		<b>798</b>	550
Minority interests		<b>16</b>	136
In US\$			
<b>Earnings per share – basic and diluted</b>	16	<b>0.79</b>	0.55

\* EBITDA before exceptional items is defined as profit before interest, taxation, depreciation and amortisation adjusted for exceptional items.

The notes on pages 69 to 107 are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	3,232	2,543
Goodwill and intangible assets	18	390	389
Loans receivable	20	7	21
Deferred tax asset	15	8	12
Other non-current assets	21	322	43
<b>Total non-current assets</b>		<b>3,959</b>	<b>3,008</b>
<b>Current assets</b>			
Inventories	22	438	361
Trade and other receivables	23	1,045	637
Financial assets	19	170	21
Loans receivable	20	28	240
Cash and cash equivalents	24	2,548	336
<b>Total current assets</b>		<b>4,229</b>	<b>1,595</b>
<b>Total assets</b>		<b>8,188</b>	<b>4,603</b>
<b>Equity</b>			
Share capital and share premium	25	3,257	200
Reserves		2,457	2,011
<b>Equity attributable to the Group's equity shareholders</b>		<b>5,714</b>	<b>2,211</b>
<b>Minority interests</b>		<b>75</b>	<b>61</b>
<b>Total equity</b>		<b>5,789</b>	<b>2,272</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	26	1,065	876
Deferred tax liabilities	15	295	280
Asset retirement obligations	27	86	44
Employee benefit obligations	28	52	48
Derivative financial instruments	33	51	-
<b>Total non-current liabilities</b>		<b>1,549</b>	<b>1,248</b>
<b>Current liabilities</b>			
Borrowings	26	359	608
Trade and other payables	29	370	393
Current income tax payable		28	20
Other taxes payable	30	93	62
<b>Total current liabilities</b>		<b>850</b>	<b>1,083</b>
<b>Total liabilities</b>		<b>2,399</b>	<b>2,331</b>
<b>Total liabilities and equity</b>		<b>8,188</b>	<b>4,603</b>

These Group consolidated financial statements, on pages 65 to 68 and the accompanying notes on pages 69 to 107, were authorised for issue by the Board of Directors on 25 April 2008 and were signed on its behalf by:



**DR JOHANNES SITTARD**  
Chief Executive Officer



**MIGUEL PERRY**  
Chief Financial Officer

## CONSOLIDATED CASH FLOW STATEMENT

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Net cash generated from operating activities</b>	31	<b>1,079</b>	<b>739</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(1,042)	(504)
Proceeds from sales of property, plant and equipment		71	19
Proceeds from sales (purchase) of intangible assets		(1)	2
Purchases of investments		–	(17)
Prepayments for acquisition of subsidiary	21	(100)	–
Proceeds from sale of investments		24	18
Loans and deposits granted to related parties		(119)	(91)
Other loans and deposits granted		(243)	–
Proceeds from repayment of loans and deposits to related parties		21	–
Proceeds from repayment of other loans and deposits		38	–
<b>Net cash used for investing activities</b>		<b>(1,351)</b>	<b>(573)</b>
<b>Cash flow from financing activities</b>			
Related party borrowings – proceeds		–	136
Bank borrowings – proceeds		1,423	192
Related party borrowings – repayments		(1,011)	(140)
Bank borrowings – repayments		(229)	(1)
Proceeds from issuance of shares	25	3,055	–
Shareholders' Settlement Agreement – repayment	5,31	(191)	–
Net withdrawal of invested capital		–	(183)
Dividends paid to equity shareholders		(500)	–
Dividends paid to minority interests		(66)	(4)
<b>Net cash generated from financing activities</b>		<b>2,481</b>	<b>–</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,209</b>	<b>166</b>
Cash and cash equivalents at beginning of year		336	165
Exchange gains on cash and cash equivalents		3	5
<b>Cash and cash equivalents at end of year</b>	24	<b>2,548</b>	<b>336</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of US\$	Note	Attributable to equity holders of the Group					Total	Minority interests	Total equity
		Share capital	Share premium	Retained earnings*	Translation reserve	Hedge reserves			
<b>Balance as at 31 December 2005</b>		–	–	<b>1,581</b>	<b>86</b>	–	<b>1,667</b>	<b>681</b>	<b>2,348</b>
Profit for the year		–	–	550	–	–	550	136	686
Currency translation differences		–	–	–	126	–	126	1	127
<b>Total recognised income and expense for year ended 31 December 2006</b>		–	–	<b>550</b>	<b>126</b>	–	<b>676</b>	<b>137</b>	<b>813</b>
Net withdrawal of invested capital and distributions	5	–	–	(276)	–	–	(276)	(79)	(355)
Change in minority interests attributable to Government shares	2e	–	–	1,144	–	–	1,144	(640)	504
Other changes in minority interests		–	–	–	–	–	–	(38)	(38)
Share issue pursuant to share exchange agreement	1a, 25	200	–	(200)	–	–	–	–	–
Promissory notes issued pursuant to share exchange agreement	1a, 2e, 26	–	–	(1,000)	–	–	(1,000)	–	(1,000)
<b>Balance as at 31 December 2006</b>		<b>200</b>	–	<b>1,799</b>	<b>212</b>	–	<b>2,211</b>	<b>61</b>	<b>2,272</b>
Profit for the year		–	–	798	–	–	798	16	814
Currency translation differences		–	–	–	165	–	165	3	168
<b>Total recognised income and expense for year ended 31 December 2007</b>		–	–	<b>798</b>	<b>165</b>	–	<b>963</b>	<b>19</b>	<b>982</b>
Dividends paid	5	–	–	(500)	–	–	(500)	–	(500)
Shares issued on initial public offering	25	58	2,999	–	–	–	3,057	–	3,057
Unrealised loss on cash flow hedge	33	–	–	–	–	(17)	(17)	–	(17)
Other changes in minority interest		–	–	–	–	–	–	(5)	(5)
<b>Balance as at 31 December 2007</b>		<b>258</b>	<b>2,999</b>	<b>2,097</b>	<b>377</b>	<b>(17)</b>	<b>5,714</b>	<b>75</b>	<b>5,789</b>

\* At 31 December 2005, retained earnings represents invested capital (see note 1x).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. PRINCIPAL ACCOUNTING POLICIES****a) Basis of preparation**

Eurasian Natural Resources Corporation PLC and its subsidiaries (the 'Group') is a leading diversified natural resources group with integrated mining, processing, energy, logistical and marketing operations. Eurasian Natural Resources Corporation PLC (the 'Company') was incorporated and registered under the laws of England and Wales on 8 December 2006.

Prior to 2006, the Group operated under common management and was jointly controlled and majority owned by three Founder Shareholders, Mr PK Chodiev, Mr AR Ibragimov and Mr AA Machkevitch (the 'Founder Shareholders'). The State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (the 'Committee') owned a minority interest in the majority of the mining and metals processing operations in Kazakhstan.

In preparation for the Initial Public Offering ('IPO'), significant legal restructuring was undertaken in 2006 to create a group of companies containing only those operations and entities which would form part of the Group; other operations owned by the Founder Shareholders (primarily Eurasian Bank JSC and Eurasian Insurance Company JSC) were left under their private ownership. In addition, with effect from early 2006, Mr VS Kim acquired 25.0% of each of the Founder Shareholders' interest in the new Group, and granted an option to Kazakhmys PLC for the purchase of this share of the Group (which was exercised in October 2007).

On 19 December 2006, the Founder Shareholders and Mr VS Kim, through their holding company, ENRC Kazakhstan Holding BV, and the Committee exchanged their shares in the various mining and metals processing operations for 75.1% and 24.9% respectively of the issued share capital of ENRC NV (the then holding company). Immediately thereafter, the Company entered into an agreement with the Committee, ENRC Kazakhstan Holding BV and ENRC NV to acquire the entire issued share capital of ENRC NV. Pursuant to the contract, ENRC Kazakhstan Holding BV and the Committee transferred their shareholdings in ENRC NV to the Company. The consideration was satisfied by: (i) the issuance by the Company of 15,026,900 ordinary shares of US\$10.00 each in the capital of the Company credited as fully paid up to ENRC Kazakhstan Holding BV; (ii) the issuance by the Company of 4,973,100 ordinary shares of US\$10.00 each in the capital of the Company credited as fully paid up to the Committee; and (iii) the issuance of promissory notes by the Company amounting to US\$751,345,000 to ENRC Kazakhstan Holding BV and US\$248,655,000 to the Committee.

The transactions undertaken to create the Group structure (including the issuance of the promissory notes) represent a business combination between entities under common control. IFRS 3 *Business Combinations* specifically does not cover transactions between entities under common control, and the Group has elected to use merger accounting principles. The Group, together with certain relevant entities and operations formerly under common control, has been consolidated as one continuing business throughout 2006. The issuance of promissory notes, amounting to US\$1 billion, was recorded as a distribution of retained earnings in 2006.

Full details of the entities included in the consolidated financial statements are set out in note 37. The accounting for the transaction to exchange the Committee's minority interest for shares in ENRC NV is disclosed in note 2e.

On 12 December 2007, the Company successfully completed its IPO and is now listed on the main market of the London Stock Exchange.

The accounting policies used in preparing these consolidated financial statements are described below and are based on International Financial Reporting Standards, as adopted by the European Union (IFRS), and the Companies Act 1985 applicable to companies reporting under IFRS. These standards are subject to interpretations issued from time to time by the International Financial Reporting Interpretation Committee (IFRIC). These consolidated financial statements have also been prepared under the historical cost convention as modified for the revaluation of certain financial instruments.

**b) Consolidated financial statements ('financial statements')**

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

**c) Minority interests**

Minority interests are that part of the net results and of the net assets, including the fair value adjustments, which are attributable to interests which are not owned, directly or indirectly, by the parent. Minority interests form a separate component of the Group's equity.

The Group has adopted the 'parent company method' and applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Gains or losses arising from disposals of minority interests are recorded in the income statement. Goodwill arising from purchases of minority interests is recorded on the balance sheet. The excess of the fair value of the consideration paid over the book value of the minority interest represents goodwill.

The Group's acquisition of the Committee's minority interest on 19 December 2006 gave rise to goodwill of US\$384 million (refer to notes 2e and 18).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**1. PRINCIPAL ACCOUNTING POLICIES CONTINUED****d) Functional and presentation currency**

All amounts in these financial statements are presented in US\$ millions, unless otherwise stated.

The functional currency of all the significant operating entities is the Kazakhstani tenge ('KZT'), whilst for the Sales and Marketing entities it is the US\$. The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency for the Company is the US\$.

The following table shows, for the years indicated, the principal rates of exchange used for the Kazakhstani tenge, expressed in Kazakhstani tenge per US\$1.00.

Years ended 31 December	Period end	Average rate
2007	120.30	122.55
2006	127.00	126.09

Exchange restrictions and controls exist relating to the conversion of Kazakhstani tenge into other currencies. At present, the Kazakhstani tenge is not a freely convertible currency.

**e) Foreign currency translation**

Transactions in currencies other than the local functional currency are translated to the functional currency at the rate of exchange ruling at the date of the 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 and the translation of monetary assets and liabilities are taken to the income statement.

**f) Translation from functional to presentation currency**

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of equity; and
- Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of acquisition. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are recognised in the income statement.

**g) Revenue recognition**

A significant portion of production is sold under contract. Revenue is only recognised on individual shipments when persuasive evidence exists that the following criteria are satisfied:

- The significant risks and rewards of ownership of the product have been transferred to the buyer. If it is arranged that the goods are transported to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The revenue from sales of many products is subject to adjustment based on an inspection of the product by the customer. In such cases, revenue is initially recognised on a provisional basis using the Group's best estimate of the quantity/quality of the product. Any subsequent adjustments to the initial estimate of quantity/quality of the product is recorded in revenue once they have been determined.
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the sale will flow to the Group.

Revenues from sales of services are recognised in the accounting period in which the services are rendered by reference to the stage of completion of the specific transaction, assessed on the basis of the actual services provided, as a proportion of the total services to be provided. Revenues are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

**h) Finance income and costs**

Finance income comprises interest income on funds invested and gains and income on investment and trading securities. Finance costs comprise interest expense on borrowings, the accumulation of interest on provisions, interest expense from the unwinding of discount on provisions for asset retirement obligations and losses on the revaluation and disposal of investments designated at fair value through the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses, unless incurred on borrowings to finance the construction of property, plant and equipment which are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Interest income and expense is recognised on a time proportion basis, using the effective interest method.

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### i) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Kazakhstani excess profit tax, as defined in note 1j below, which is payable on super profits, is treated as an income tax and forms part of the income tax expense.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred excess profits tax is calculated with respect to temporary differences in respect of assets allocated to contracts for subsurface use at the expected rate of excess profits tax to be paid under the contract.

### j) Excess profits tax

Excess profits tax is payable under subsurface use contracts where the internal rate of return during the year is in excess of 20%. Liabilities for excess profits tax are recorded in accordance with the Group's accounting policies for current and deferred tax and based on management's understanding of the provisions of the subsurface use contracts and tax regulations.

Where the Group's operations, within one production cycle, are divided into operations conducted under a subsurface use contract (subsurface use operations) and non-contractual operations (processing of products derived from subsurface use operations), for the purpose of the excess profits tax calculation, revenues from the internal transfer of product from the subsurface use operations to divisions operating the processing plants are recorded at the actual cost of extraction of the products. In all other cases, for the purposes of the excess profits tax calculation, revenue from external sales of product from subsurface use operations are recorded at the prices at which the products were actually sold.

### k) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they have been approved before or on the balance sheet date. Dividends are disclosed when they have been proposed before the balance sheet date or when declared after the balance sheet date but before the financial statements are authorised for issue.

### l) Finance leases and hire purchase commitments

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

### m) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to the income statement on a straight-line basis over the period of the lease. For operating leases relating to the use of mining facilities, rental expense is recognised in cost of sales. For operating leases relating to the use of administrative facilities, rental expense is recognised in selling, general and administrative expenses in the income statement.

Where the Group is a lessor under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**1. PRINCIPAL ACCOUNTING POLICIES CONTINUED****n) Exploration and evaluation**

Exploration and evaluation costs related to an area of interest are written off as incurred. At the time that it is considered probable that future costs will be recovered through successful development and exploitation of the area of interest, or alternatively through its sale, they are carried forward as an asset in the balance sheet and are included within mining assets.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. Selling, general and administrative expenses are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that impairment may exist.

Identifiable exploration assets acquired as part of a business combination are recognised as assets at their fair value, as determined by the requirements of IFRS 3 *Business Combinations*. Exploration and evaluation expenditure incurred subsequent to the acquisition is accounted for in accordance with the policy outlined above.

**o) Property, plant and equipment**

Property, plant and equipment is carried at cost (or deemed cost) less accumulated depreciation and any impairment charges. Depreciation is recorded over the useful life of the asset, or over the expected remaining life of the mine if shorter, as follows:

- Buildings and mining constructions: 20 to 50 years on a straight-line basis;
- Mining assets: on a units of production basis;
- Plant and equipment: 6 to 15 years on a straight-line basis;
- Motor vehicles: 5 to 15 years on a straight-line basis; and
- Land is not depreciated.

Estimates of residual values and useful lives are reassessed annually, and any change in estimate is taken into account in the determination of future depreciation charges.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the asset as a whole, are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Specialised spare parts and servicing equipment with a significant initial value and a useful life of more than one year are recognised as items of property, plant and equipment. Other spare parts and servicing-related equipment are recognised as inventories and accounted for in the income statement on utilisation.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement when the asset is retired.

Property, plant and equipment are tested for impairment if facts and circumstances indicate that impairment may exist, in accordance with the impairment policy below.

**i) Mining assets**

Once a project has been established as commercially viable, expenditure is capitalised under 'mining assets' together with amounts transferred from 'exploration and evaluation'. Mining assets include expenditure incurred to establish or expand productive capacity, costs to conduct mining-construction and mining-capital works, as well as costs arising from mining preparation works during the development or mine reconstruction phase.

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine and the related infrastructure, including the cost of materials, direct labour and an appropriate proportion of production overheads.

When further development expenditure is incurred in respect of a mining asset after the commencement of production, such expenditure is carried forward as part of mining assets when it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise such expenditure is recognised as a cost of production.

Once a project has been fully commissioned, depreciation is charged using the units of production method, based on proved and probable reserves, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of proved and probable reserves.

Mining assets are included within the category 'Buildings and mining constructions' of property, plant and equipment.

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### ii) *Assets under construction*

Assets under construction are capitalised as a separate component of property, plant and equipment. Self-constructed assets include the cost of materials, direct labour and an appropriate proportion of production overheads.

On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not depreciated. Depreciation commences on the earlier of the date when the assets are brought into service or the assets are available for use.

### iii) *Stripping costs*

Stripping costs comprise the removal of overburden and other waste products from a mine. Stripping costs incurred in the development of mines and open pits before production commences are capitalised as part of the cost of constructing the mines and open pits, as part of mining assets, and are subsequently depreciated using the units-of-production method over the lives of the mines or open pits.

Stripping costs incurred during the production phase of operations are expensed as a production cost and included within the cost of inventory.

### p) *Impairment*

Property, plant and equipment and all other non-financial assets are reviewed for impairment if facts and circumstances indicate that impairment may exist.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell' (the amount obtainable from the sale of an asset or cash generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal). Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's-length transaction. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The estimates used for impairment reviews are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 Impairment of Assets. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of three to five years); and
- future cash costs of production, capital expenditure, close down, restoration and environmental clean up.

The expected future cash flows of cash generating units reflect long-term mine and production plans which are based on detailed research, analysis and iterative modelling to optimise the level of return from investment, output and sequence of extraction. The plans take account of all relevant characteristics of the ore body, including waste-to-ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing and production equipment that can be used in extraction of ore and production of final products. The mine and production plans are therefore the basis for forecasting production output in each future year and the related production costs. Value in use represents discounted pre-tax cash flows discounted on the pre-tax long-term rate of capitalisation. Fair value less costs to sell is determined based on market information.

For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. IAS 36 includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement-related capital expenditure.

The pre-tax discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

#### q) Goodwill

The purchase method of accounting is used to account for business combinations. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition ('excess of acquirer's interest' or 'negative goodwill') is recognised immediately in the income statement.

Goodwill is tested for impairment annually in accordance with the impairment policy described on page 73.

#### r) Intangible assets

Intangible assets, which are acquired by the Group and 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 at fair value when the fair value can be measured reliably on initial recognition. Intangible assets are tested for impairment if facts and circumstances indicate that impairment may exist, in accordance with the impairment policy described above.

#### s) Financial assets

##### Recognition

Purchases and sales of financial instruments are recognised on the relevant settlement date, which is the date that an asset is delivered to or by the Group. The change in value between the trade date and settlement date is not recognised for assets carried at cost or amortised cost. The change in value between the trade date and settlement date is recognised in the income statement for financial instruments held for trading or designated on initial recognition as 'at fair value through income statement'. Fair value at the trade date (initial recognition) is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

##### Classification

The Group classifies its financial assets into the following measurement categories: loans and receivables, and fair value instruments through the income statement. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### i) Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are recognised initially at fair value plus transaction costs. Subsequently, loans and receivables are stated at amortised cost using the effective yield method. Where a loan is provided at interest rates different from market rates, the loan is re-measured at origination at its fair value, which is represented by future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the loan at origination and its cost (fair value of the contribution to the borrower, net of transaction costs) represents an origination gain or loss.

The origination gain or loss is recorded in the income statement within finance income/costs unless it qualifies for recognition as an asset, liability or a charge to equity in accordance with the substance of the arrangement. Subsequently, the carrying amount of the loans is adjusted for amortisation of the origination gain or loss and the amortisation is recorded as finance income/costs using the effective yield method.

Loans and receivables are included in current assets in the balance sheet, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

##### ii) Assets designated at fair value through income statement

Financial assets at fair value through the income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as financial assets at fair value through the income statement unless they are designated as hedges.

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Differences between fair value and carrying value are recognised in other operating income or expense in the income statement.

#### *i) Financial instruments carried at fair value*

Trading investments and financial derivatives recognised at fair value through the income statement and financial derivatives, including those classified as non-current assets held for sale, are carried on the consolidated balance sheets at their fair value.

Fair values are determined based on quoted market prices except for certain investment securities available-for-sale for which there are no available external independent market price quotations. These securities are fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques require certain assumptions that were not supported by observable market data. Changing any such assumptions used to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

#### *ii) Financial assets carried at amortised cost*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

#### *iii) Liabilities carried at amortised cost*

The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ('demandable liabilities') is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to note 26 for the estimated fair values of borrowings.

#### **t) Derivative financial instruments and hedging activities**

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. These transactions take the form of contracts that are entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. Any net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

Derivative financial instruments are initially recognised at fair value as assets when the fair value is positive and as liabilities when the fair value is negative on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Management policy is to hedge a proportion of foreign exchange risk associated with highly probable forecast transactions denominated in foreign currencies, refer to note 34 for details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other operating expense – net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward exchange contracts hedging export sales is recognised in the income statement within 'cost of sales'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Movements on derivatives not designated as hedge derivatives are taken to 'other operating expense – net' in the income statement.

Refer to notes 33 and 34 for disclosure of derivatives and financial risk management.

#### u) Inventories

Inventories are recorded at the lower of weighted average cost and net realisable value.

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 or extraction cost and for work in progress and finished goods is the cost of production, including the appropriate proportion of depreciation and 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.

#### v) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest yield method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows, discounted at the original effective interest rate. The movement in the provision from the previous reporting period is recognised in the income statement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Subsequent recoveries of amounts previously written off are credited against 'selling, general and administration expenses' in the income statement.

#### w) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less for cash flow purposes. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date are included in other non-current assets, while balances restricted for more than three months but less than 12 months after the balance sheet date are included in trade and other receivables. Restricted balances are excluded from cash and cash equivalents for the purpose of the cash flow statement.

#### x) Invested capital

The Company did not exist until 8 December 2006, and did not become the parent company for the Group until 19 December 2006. Invested capital represents the difference between the cumulative investment in the entities and businesses which form part of the combined ENRC PLC Group and the minority interests.

#### y) Borrowings

Borrowings are initially recorded at fair value net of transaction costs, including facility fees, incurred and subsequently measured at amortised cost using the effective interest method.

Where a loan is obtained at interest rates different from market rates, the loan is re-measured at origination to its fair value, which is calculated as future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the loan at origination and its cost (fair value of the contribution to the borrower, net of transaction costs) represents an origination gain or loss. The origination gain or loss is recorded in the income statement within finance income/costs unless it qualifies for recognition as an asset, liability or a charge to equity in accordance with the substance of the arrangement. Subsequently, the carrying amount of the borrowings is adjusted for amortisation of the origination gain or loss and the amortisation is recorded as finance income/cost using the effective interest yield method on the asset/liability.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### z) Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### aa) Asset retirement obligations and other environmental provisions

An obligation to incur asset retirement costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and are subject to regular review.

Asset retirement costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalised into the cost of the related asset. These costs are charged against profits through depreciation of the asset and unwinding of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of environmental disturbance, which arise during production, are provided at their net present values and charged against operating profits as extraction progresses. A change in the measurement of a liability which arises during production is charged against operating profit.

The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

### ab) Employee benefit obligations

#### Defined benefit plans

The Group provides long-term employee benefits to employees in Kazakhstan before, on and after retirement, in accordance with a labour union agreement. Such benefits are valued consistent with an unfunded defined benefit plan in accordance with IAS 19 *Employee Benefits*. There are no post retirement/long-term service benefits provided in any other country where the Group operates.

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 annually by a qualified, independent actuary.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. For defined benefit post-employment plans, the difference between the fair value of the plan assets (if any) and the present value of the defined liabilities obligations is recognised as an asset or liability on the balance sheet. Actuarial gains and losses arising in the year are taken to the income statement. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the income statement, including current service cost, any past service cost and the effect of any curtailments or settlements.

#### Defined contribution plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### Other post retirement/long-term service benefits

The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plans.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

#### Payroll expense and related contributions

Wages, salaries, and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. On behalf of its employees, the Group pays those statutory pension and post-employment benefit amounts prescribed by the legal requirements of the countries in which it operates. These payments are expensed as incurred. Upon retirement of the employee, the financial obligations of the Group, in this regard, cease and all subsequent payments to retired employees are administered by the state and private cumulative pension funds.

#### Share-based bonus awards

The Group operates an equity settled share-based bonus award scheme in respect of the Directors, management, senior employees and professional advisers' contribution to the Group's preparations for admission to the London Stock Exchange. The fair value of the employee services received, measured by reference to the fair value of the shares granted at the grant date less nominal value, is recognised as initial public offering cost in the income statement.

#### ac) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### ad) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

#### ae) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value. Financial guarantees are recognised when premiums are paid or in the case of premium-free guarantees when the borrower received the money from the financing entity. When the Group issues premium-free guarantees or guarantees at a premium different from the market premium, the fair value is determined using valuation techniques (e.g. market prices of similar instruments, interest rate differentials, etc). Losses at initial recognition of financial guarantee liabilities are recognised in the income statement within other operating expenses. Financial guarantee liabilities are amortised on a straight-line basis over the life of the guarantee with the respective income presented within other operating income. At each balance sheet date, the guarantees are measured at the higher of: (i) the unamortised balance of the amount at initial recognition; and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### a) Ore reserve estimates

The Group's ore reserves are based on its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Ore reserve estimates are calculated based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC code) which requires the use of reasonable assumptions, including:

- future production estimates – which include proved and probable reserves, resource estimates and committed expansions;
- expected future commodity prices, based on current market price, forward prices and the Group's assessment of the long-term average price; and
- future cash costs of production, capital expenditure and rehabilitation obligations.

Ore reserve estimates may change from period to period. This may impact the Group's financial results. Such changes in reserves may impact depreciation charges, asset carrying values, and asset retirement obligation provisions.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

### b) Life of mines

Contracts for subsurface use expire between 2017 and 2045. Management expects that the subsurface use contracts will be extended at nominal cost until the end of the lives of the related mines. Any change to this assumption may impact the Group's financial results by affecting depreciation charges, asset carrying values and asset retirement obligations, as these have been recorded on the assumption that the subsurface use contracts will be extended until the end of the mine life. During 2007, the Government of the Republic of Kazakhstan confirmed by letter, addressed to the Group, that the Group is entitled to prolong the contracts under the contractual terms and the subsurface use legislation. If the contracts are not renewed at their current expiry dates, the carrying amount of property, plant and equipment existing at the expiry date to be written off at the date of expiry is valued at US\$450 million as at 31 December 2007 (2006 : US\$330 million).

### c) Provision for asset retirement obligations

Provision is made for asset retirement obligations when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in note 1aa.

The provision recognised represents management's best estimate of the costs that will be incurred but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine. Estimates are reviewed annually and are based on management's interpretation of compliance with current environmental legislation in the Republic of Kazakhstan. Significant changes in environmental legislation, restoration techniques and estimates of contamination will result in changes to provisions from period to period.

The engineering estimates evaluated by management are reviewed annually by independent mining engineering consultants.

The inflation rate currently applied in the calculation is 8.3% as at 31 December 2007 (2006 : 7.4%) being the estimate of the rate of inflation over the mine lives. The discount rate currently applied in the calculation is 7.4% at 31 December 2007 (2006 : 8.0%) being the estimate of the risk-free pre-tax cost of borrowings over the life of mines. Rehabilitation expenditure is largely expected to take place at the end of the respective mine lives, which varies from 30 to 42 years, with an average, weighted by the estimated closure date, provision of 33 years.

### d) Impairment

The Group considers internal and external indicators of impairment relating to its tangible and intangible assets. The Group considers internal and external indicators of impairment relating to its tangible and intangible assets. The effects of exchange rate and commodity price changes on the asset values of the businesses in the Group relative to their carrying values are monitored closely.

### e) Valuation of the Government transaction

As described in note 1a, on 19 December 2006 the Committee exchanged its shares in the principal mining and metal processing subsidiaries for a 24.9% shareholding in ENRC NV; on the same day it exchanged its ENRC NV shares for 24.9% of the ordinary share capital of Eurasian Natural Resources Corporation PLC and a promissory note of US\$249 million.

At 19 December 2006, Eurasian Natural Resources Corporation PLC was a privately held company whose shares were not publicly traded. Accordingly, it was necessary to establish an appropriate basis for determining the fair value of shares issued, as in the absence of an active market an alternative valuation technique had to be used.

Management determined that the transaction in 2006, whereby the three Founder Shareholders sold 25% of ENRC Kazakhstan Holding BV (the then parent company for the ENRC Group) for US\$751 million to Mr V S Kim ('Kim transaction'), could be used as an appropriate reference value for the 24.9% Government shareholding. An additional 10.0% uplift was considered to reflect the additional value created during 2006 by ENRC following the completion of the legal restructuring and preparation for a 2007 IPO as well as movements in market indices in 2006. The deemed fair value of the 24.9% shareholding in Eurasian Natural Resources Corporation PLC amounted to US\$1 billion which resulted in goodwill amounting to US\$384 million.

### f) Tax legislation

Kazakhstan tax legislation is subject to varying interpretations (refer to note 32).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 3. NEW ACCOUNTING PRONOUNCEMENTS

The Group has early adopted IFRS 7 *Financial Instruments* disclosures from 1 January 2006. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

The following new standards and interpretations have been published that are not mandatory for the Group's accounting year ended 31 December 2007 which the Group has not early adopted:

IFRS 8	Operating segments (effective from periods beginning on or after 1 January 2009).
IFRIC 11, IFRS 2 (Amendment)	Group and treasury share transactions (effective from annual periods beginning on or after 1 March 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions.
IAS 23 (Revised)	Borrowing costs (effective from periods beginning on or after 1 January 2009 – not yet endorsed by the EU).
IAS 1 (Revised)	Presentation of financial statements (effective from 1 January 2009 – not yet endorsed by the EU).
IAS 27 (Revised)	Consolidated and separate financial statements (effective from periods beginning on or after 1 July 2009 – not yet endorsed by the EU).
IFRS 2 (Amendment)	Share-based payment and amendment vesting conditions and cancellations (effective from periods beginning on or after 1 January 2009 – not yet endorsed by the EU).
IFRS 3 (Revised)	Business combinations (effective for business combinations after 1 July 2009 – not yet endorsed by the EU).

These new standards and interpretations are not expected to significantly affect the Group's financial statements.

The following new standards and interpretations have been published that are not mandatory for the Group's accounting year ended 31 December 2007 and which will not be relevant for the Group (not yet endorsed by the EU):

IFRIC 12	Service concession arrangements (effective from periods beginning on or after 1 January 2008).
IFRIC 13	Customer loyalty programmes (effective from periods beginning on or after 1 July 2008).
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from periods beginning on or after 1 January 2008).

### 4. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables and mainly exclude investments and income tax balances. Segment liabilities comprise primarily trade and other payables. Capital expenditure comprises additions to property, plant and equipment and intangible assets. Unallocated items comprise mainly investments and related income, interest-bearing loans, borrowings and finance income costs and taxation.

The Group is organised on the basis of five main business segments:

- Ferroalloys – Principal activity comprises the extraction and sale of chrome ore as well as the production of ferroalloys from chromium and manganese ores.
- Iron ore – Principal activity comprises extraction, processing and manufacturing of iron ore products.
- Alumina and Aluminium – Principal activity comprises extraction and processing of bauxite and limestone, and smelting of alumina and aluminium.
- Energy – Principal activity comprises coal production and power generation.
- Logistics – Kazakhstan's main freight forwarder and railroad operator, providing international logistics for all ENRC operations; also rail construction and repair services for the Kazakhstani state rail company.

Internal charges between segments have been reflected in the performance of each business segment. The Group has a number of activities that exist principally to support the mining operations including power generation, coal mining and transportation. Inter-segment transfers or transactions are entered into under a cost plus pricing structure.

#### 4. SEGMENT INFORMATION CONTINUED

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

##### 2007 Segmental analysis

In millions of US\$	Ferroalloys	Iron ore	Alumina and Aluminium	Energy	Logistics	Corporate	Eliminations	Group
Revenue	2,178	991	607	181	149	–	–	4,106
Inter-segment revenues	–	–	1	133	83	–	(217)	–
<b>Segment revenue</b>	<b>2,178</b>	<b>991</b>	<b>608</b>	<b>314</b>	<b>232</b>	<b>–</b>	<b>(217)</b>	<b>4,106</b>
<b>Segment operating profit</b>	<b>1,038</b>	<b>359</b>	<b>159</b>	<b>71</b>	<b>27</b>	<b>(233)</b>	<b>–</b>	<b>1,421</b>
Finance income								58
Finance costs								(158)
<b>Profit before income tax</b>								<b>1,321</b>
Income tax expense								(507)
<b>Profit for the year</b>								<b>814</b>
<b>EBITDA before exceptional items</b>	<b>1,138</b>	<b>448</b>	<b>220</b>	<b>107</b>	<b>44</b>	<b>(51)</b>	<b>–</b>	<b>1,906</b>
Depreciation and amortisation	(100)	(89)	(61)	(36)	(17)	–	–	(303)
Exceptional items	–	–	–	–	–	(182)	–	(182)
<b>Segment operating profit</b>	<b>1,038</b>	<b>359</b>	<b>159</b>	<b>71</b>	<b>27</b>	<b>(233)</b>	<b>–</b>	<b>1,421</b>
<b>Capital expenditure</b>	<b>168</b>	<b>227</b>	<b>365</b>	<b>89</b>	<b>57</b>	<b>5</b>	<b>–</b>	<b>911</b>
<b>Segment assets</b>	<b>1,962</b>	<b>1,222</b>	<b>1,396</b>	<b>514</b>	<b>245</b>	<b>52</b>	<b>(27)</b>	<b>5,364</b>
<b>Segment liabilities</b>	<b>(259)</b>	<b>(145)</b>	<b>(117)</b>	<b>(37)</b>	<b>(39)</b>	<b>(76)</b>	<b>27</b>	<b>(646)</b>
								<b>4,718</b>
<b>Unallocated assets and liabilities (net)</b>								<b>201</b>
<b>Prepayment – Serov</b>								<b>100</b>
<b>IPO Proceeds</b>								<b>2,461</b>
<b>Loans receivable</b>								<b>35</b>
<b>Borrowings</b>								<b>(1,424)</b>
<b>Deferred and current income taxation (net)</b>								<b>(302)</b>
<b>Total equity</b>								<b>5,789</b>
<b>Average number of employees</b>	<b>21,020</b>	<b>19,420</b>	<b>13,870</b>	<b>6,420</b>	<b>3,200</b>	<b>220</b>		<b>64,150</b>

Geographical segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

##### Geographical segmental analysis

In millions of US\$	Eurasia*	Europe and Middle East	Asia Pacific*	Rest of World	Total
<b>2007</b>					
Revenue	2,167	566	1,114	259	4,106
Assets	4,655	609	47	53	5,364
Capital expenditure	907	4	–	–	911

\* Eurasia comprises Kazakhstan, Russia and other countries of the former Soviet Union; Asia Pacific comprises China, Korea and Japan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

#### 4. SEGMENT INFORMATION CONTINUED

##### 2006 Segmental analysis

In millions of US\$	Ferroalloys	Iron ore	Alumina and Aluminium	Energy	Logistics	Corporate	Eliminations	Group
Revenue	1,473	829	602	154	198	–	–	3,256
Inter-segment revenues	–	–	10	109	79	–	(198)	–
<b>Segment revenue</b>	<b>1,473</b>	<b>829</b>	<b>612</b>	<b>263</b>	<b>277</b>	<b>–</b>	<b>(198)</b>	<b>3,256</b>
<b>Segment operating profit</b>	<b>476</b>	<b>244</b>	<b>226</b>	<b>41</b>	<b>38</b>	<b>(28)</b>	<b>–</b>	<b>997</b>
Finance income								24
Finance costs								(50)
<b>Profit before income tax</b>								<b>971</b>
Income tax expense								(285)
<b>Profit for the year</b>								<b>686</b>
<b>EBITDA before exceptional items</b>	<b>547</b>	<b>323</b>	<b>277</b>	<b>77</b>	<b>54</b>	<b>(22)</b>	<b>–</b>	<b>1,256</b>
Depreciation and amortisation	(71)	(79)	(51)	(36)	(16)	–	–	(253)
Exceptional items	–	–	–	–	–	(6)	–	(6)
<b>Segment operating profit</b>	<b>476</b>	<b>244</b>	<b>226</b>	<b>41</b>	<b>38</b>	<b>(28)</b>	<b>–</b>	<b>997</b>
<b>Capital expenditure</b>	<b>170</b>	<b>107</b>	<b>227</b>	<b>42</b>	<b>16</b>	<b>1</b>		<b>563</b>
<b>Segment assets</b>	<b>1,584</b>	<b>1,096</b>	<b>887</b>	<b>365</b>	<b>246</b>	<b>58</b>		<b>4,236</b>
<b>Segment liabilities</b>	<b>(243)</b>	<b>(146)</b>	<b>(69)</b>	<b>(24)</b>	<b>(72)</b>	<b>–</b>		<b>(554)</b>
								3,682
<b>Unallocated assets and liabilities (net)</b>								<b>73</b>
<b>Loans receivable</b>								<b>261</b>
<b>Borrowings</b>								<b>(1,484)</b>
<b>Deferred and current income taxation (net)</b>								<b>(260)</b>
<b>Total equity</b>								<b>2,272</b>
<b>Average number of employees</b>	<b>20,500</b>	<b>18,750</b>	<b>12,500</b>	<b>6,300</b>	<b>3,800</b>	<b>150</b>		<b>62,000</b>

Geographical segment information for the main reportable business segments of the Group for the year ended 31 December 2006 is set out below:

##### Geographical segmental analysis

In millions of US\$	Eurasia*	Europe and Middle East	Asia Pacific*	Rest of World	Total
<b>2006</b>					
Revenue	1,724	405	957	170	3,256
Assets	3,795	357	35	49	4,236
Capital expenditure	563	–	–	–	563

\* Eurasia comprises Kazakhstan, Russia and other countries of the former Soviet Union; Asia Pacific comprises China, Korea and Japan.

External revenue is based on where the customer is located. Segment assets and capital expenditure are based on where the assets are located.

## 5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below. All balances and transactions are with entities under common control or entities controlled by the Republic of Kazakhstan.

### Founder Shareholders

As described in note 1a, the Group has been formed from a collection of entities jointly controlled by the three Founder Shareholders, Mr PK Chodiev, Mr AR Ibragimov and Mr AA Machkevitch. During the reporting periods, the Group undertook significant related party transactions with entities controlled by the three Founder Shareholders. These transactions were undertaken at contracted rates, which were not necessarily on an arm's length basis pre-IPO. The principal activities conducted with related parties were as follows:

- Surplus cash in the plants in Kazakhstan was lent to Eurasian Bank JSC at below market interest rates. Loans were also drawn from Eurasian Bank JSC. A summary is provided below.
- Insurance cover was provided by Eurasian insurance company JSC at the regulated rates.
- Coal purchases were made from Shubarkol Komir JSC and Mugotecs Coal Mining JSC, at below market rates.

Post IPO, all transactions with related parties will be approved by the Board and be on an arm's length basis.

The tables below summarise the related party transactions and balances with entities under common control:

In millions of US\$	Years ended 31 December	
	2007	2006
<b>Revenue from sale of goods</b>		
Ferroalloys*	95	52
Iron ore	5	–
Energy	8	–
<b>Other income</b>		
Insurance, commission and other income	23	31
<b>Expenses</b>		
Purchase of raw materials	(79)	(25)
Insurance	(45)	(76)
Selling, general and administrative expenses	(38)	(37)
Finance income	28	19
Finance costs	(36)	(26)
Bank charges	(8)	(9)

\* Mainly to Serov.

The outstanding balances with entities under common control at 31 December 2007 and 31 December 2006 are as follows:

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Non-current assets</b>			
Loans receivable	20	7	21
Other non-current assets	21	114	8
<b>Current assets</b>			
Trade and other receivables	23	107	88
Loans receivable	20	26	208
Term deposits	23	138	38
Cash and cash equivalents		76	221
<b>Non-current liabilities</b>			
Borrowings:			
Promissory note		–	601
Other	26	–	42
<b>Current liabilities</b>			
Borrowings:			
Promissory note		–	150
Other	26	1	215
Trade and other payables	29	6	65

Other non-current assets include an initial payment of US\$100 million made on 16 July 2007 as part of the acquisition of Serov Group. Refer to note 36.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED****Promissory notes**

During December 2006, promissory notes for US\$1 billion were issued by the Group (recorded as distribution of Retained Earnings) in which the Group promised to pay the principal sums of US\$751 million and US\$249 million to ENRC Kazakhstan Holding BV and to the Ministry of Finance of the Republic of Kazakhstan, respectively, refer to note 1a.

In the year ended 31 December 2007, the promissory notes were fully repaid. The repayment was financed through an increase in the structured trade finance facility referred to in note 26 and from the IPO proceeds. During the year ended 31 December 2007 US\$24 million (2006 : US\$2 million) and US\$8 million (2006 : US\$1 million) of interest were incurred in relation to the promissory notes, to ENRC Kazakhstan Holding BV and the Committee, respectively.

Other rights and obligations with related parties at 31 December 2007 and 31 December 2006 are set out below:

In millions of US\$	Note	As at 31 December	
		2007	2006
Guarantees issued by the Group	32	19	50

The table below summarises the outstanding balances with Eurasian Bank JSC at:

In millions of US\$	Note	As at 31 December	
		2007	2006
Long-term deposits and restricted cash	21	5	6
Term deposits	23	138	38
Other receivables		–	6
Cash and cash equivalents		76	221
Letters of credit	21,23	16	1
Borrowings – non current		–	(12)
Borrowings – current		–	(1)
Other payables		–	(2)
Net position		235	257

The effective interest rate for short-term deposits for the year ended 31 December 2007 is 8.4% (2006 : 5.9%).

In 2007, the Group agreed to maintain until October 2008 certain existing term deposits with Eurasian Bank amounting to US\$123 million.

**Shareholders' Settlement Agreement**

During June 2007, the Group undertook a series of transactions to consolidate a number of assets and liabilities outstanding with various companies under the control of the Founder Shareholders. There was a settlement of the overall outstanding balance to eliminate amounts owing from Eurasian Natural Resources Corporation PLC subsidiaries to the shareholder group.

As a result of the above transactions, the inter-company balances within the ENRC Group were significantly reduced. The inter-company balances (excluding certain balances, which existed with the immediate shareholders of Eurasian Natural Resources Corporation PLC on formation of the Group) now exist entirely between the subsidiaries of Eurasian Natural Resources Corporation PLC as opposed to being in place between the Founder Shareholders of Eurasian Natural Resources Corporation PLC and its subsidiaries.

The following loans have been settled as part of the Shareholders' Settlement Agreement:

**Kherson Holding BV**

The Group received financing loans from Kherson Holding BV, a related party, for the amount of US\$54 million. The loan agreements specified an interest rate of 0% and that the principal was to be repaid by 2010. The carrying amount of these loans at 31 December 2006 was US\$28 million. As at 31 December 2007, these loans had been reassigned to ENRC NV as a part of the reassignment process resulting from the Shareholders' Settlement Agreement.

**CIM Global Investments BV**

During December 2006, CIM Global Investments BV provided a short-term loan of US\$47 million to the Group for the purpose of financing the construction of the aluminium smelter. The loan bore interest at the rate of 5.0% per annum and as at 31 December 2007 had been settled in full as part of the Shareholders' Settlement Agreement.

**ENRC Kazakhstan Holding BV**

During December 2006, ENRC Kazakhstan Holding BV provided a short-term loan of US\$139 million to the Group for the purpose of financing the construction of the aluminium smelter. The loan bore interest at the rate of LIBOR plus 1.0% and as at 31 December 2007 had been settled in full as part of the Shareholders' Settlement Agreement.

## 5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED

### Kazakhstan Minerals Resource Corporation ('KMRC')

The Eurasian Energy Corporation JSC ('EEC') concluded an Investment Agreement with KMRC according to which KMRC had committed to invest US\$5 million annually from 2000 until 2009 and US\$20 million annually from 2010 until 2024. The total amount to be invested was equal to US\$344 million. The carrying amount of this loan at the year ended 31 December 2006 was US\$13 million. In light of the legal restructuring, the Committee agreed to annul KMRC's obligation, during 2007, on condition that Eurasian Natural Resources Corporation PLC committed in writing to the planned capital expenditure investment programme at EEC. Refer to note 32.

### Republic of Kazakhstan

In addition to conducting transactions with entities controlled by the Founder Shareholders, the Group conducted transactions with entities controlled by the Republic of Kazakhstan. The principal activities were as follows:

- Provision of railway repair services through Remput LLP and Company Zhol zhondeushi LLP;
- Supply of electricity through Eurasian Energy Corporation JSC; and
- Operating costs, including appropriate taxes.

All revenue-generating transactions between the Group and government departments and agencies are considered to be related party transactions. Costs of transactions between the Group and government departments and agencies are also considered to be related party transactions unless they meet all of the following criteria:

- They were done in the normal course of the government departments and agencies dealings;
- There is no choice of suppliers; and
- They have terms and conditions (including prices, privileges, credit terms, regulations etc.) that are consistently applied to all entities, public or private.

The related party transactions with government departments and agencies of the Republic of Kazakhstan are set out below:

In millions of US\$	Years ended 31 December	
	2007	2006
Revenue from the provision of services	134	173
Revenue from the sale of goods	6	3

The Group did not have any non-standard or privileged transactions with entities controlled by the Republic of Kazakhstan.

### Other transactions

Balances outstanding with pre-IPO shareholders were as follows:

In millions of US\$	Note	Years ended 31 December	
		2007	2006
Distributions payable	29	4	133

Transactions with Founder Shareholders are summarised below:

In millions of US\$	Years ended 31 December	
	2007	2006
Distributions paid	282	246
Other movements in invested capital (net)	–	30

Distributions paid represent declared dividends. A total amount of US\$500 million interim dividend was paid in 2007, of which US\$282 million pertains to the Founder Shareholders.

Other movements in invested capital (net) represent earnings of entities or businesses previously held under common control, retained directly by the Founder Shareholders and the residual profits of the Russian Trading Structure.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES CONTINUED****Key management compensation**

Key management compensation is summarised below:

In thousands of US\$	Years ended 31 December	
	2007	2006
Salaries and other short-term employee benefits, including bonuses	29,349	25,782
IPO bonus	85,899	–
<b>Total</b>	<b>115,248</b>	<b>25,782</b>

Balances outstanding with key management arising from key management compensation were as follows:

In thousands of US\$	Years ended 31 December	
	2007	2006
Receivables from key management	5,388	–
Payables to key management	(13,887)	–

**Board compensation**

Compensation payable to directors of the Company (including individuals acting in the capacity of Director during the period presented) is for the services performed for the Group.

Directors' detailed emoluments are disclosed in the Remuneration Report on pages 59 to 62.

**IPO bonus**

The Company has granted US\$150 million cash and share awards to Directors, management, senior employees and other advisers in respect of their contribution to the Group's preparations for Admission. US\$41 million cash awards and US\$109 million worth of ordinary shares, (10,000,000 shares with a nominal value of US\$0.20 each) were awarded.

**6. REVENUE**

In millions of US\$	Years ended 31 December	
	2007	2006
Sales of goods	3,861	2,965
Logistics	149	198
Sales of by-products and other income	96	93
<b>Total revenue</b>	<b>4,106</b>	<b>3,256</b>

**7. COST OF SALES**

In millions of US\$	Years ended 31 December	
	2007	2006
Materials and components used	(835)	(721)
Staff costs	(354)	(295)
Depreciation and amortisation	(271)	(241)
Power and energy	(65)	(54)
Royalties and other taxes	(52)	(24)
Repairs and maintenance	(35)	(24)
Commission	(24)	(34)
Insurance	(28)	(48)
In-plant carriage costs	(11)	(5)
Changes in inventories of finished goods and work-in-progress	38	(4)
Realised gain on the cash flow hedge	4	–
Other	(68)	(92)
<b>Total cost of sales</b>	<b>(1,701)</b>	<b>(1,542)</b>

**8. DISTRIBUTION COSTS**

In millions of US\$	Years ended 31 December	
	2007	2006
Transportation costs	(269)	(309)
Insurance	(19)	(28)
Taxes and duties	(18)	(3)
Agency fees	(17)	(13)
Other	(50)	(54)
<b>Total distribution costs</b>	<b>(373)</b>	<b>(407)</b>

**9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

In millions of US\$	Years ended 31 December	
	2007	2006
Staff costs	(290)	(96)
Professional and other services	(74)	(35)
Sponsorship and donations	(34)	(24)
Depreciation, amortisation and impairment	(32)	(12)
Taxes other than on income	(47)	(29)
Travel and entertainment	(20)	(18)
Rent	(12)	(9)
Bank charges	(11)	(12)
Impairment loss provision	(5)	(4)
Utilities	(5)	(5)
Repairs and maintenance	(4)	(7)
Insurance	(4)	(2)
Other	(68)	(37)
<b>Total selling, general and administrative expenses</b>	<b>(606)</b>	<b>(290)</b>
<b>Costs incurred in relation to the initial public offering (exceptional items)</b>	<b>(182)</b>	<b>(6)</b>

**Exceptional item**

Costs related directly to the new issue of shares have been deducted from equity. Attributable IPO costs are allocated between the share premium account and income statement in proportion to the number of new shares issued compared to the existing number of shares. Other costs attributable to the Listing have been expensed.

Costs expensed for the year ended 31 December 2007, in relation to the initial public offering, are US\$182 million of which US\$150 million IPO bonuses are included in staff costs in the table above. The remaining US\$32 million is in professional and other services. Refer to note 5. Costs of US\$96 million have been taken to equity. Refer to note 15 for the tax effect.

**10. OTHER OPERATING EXPENSES – NET**

In millions of US\$	Years ended 31 December	
	2007	2006
Net foreign exchange losses	(8)	(16)
Net (losses)/gains on financial instruments and derivatives	(32)	3
Loss on disposal of property, plant and equipment	(1)	(9)
Net income/(expense) from sale of other assets	7	(3)
Insurance income	13	7
Other income/(expense)	16	(2)
<b>Total other operating expenses – net</b>	<b>(5)</b>	<b>(20)</b>

**11. AUDITORS' REMUNERATION**

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

In millions of US\$	Years ended 31 December	
	2007	2006
<b>Audit services</b>		
Fees payable to Company auditor for the audit of parent company and consolidated financial statements <sup>1</sup>	1.4	–
<b>Non-audit services</b>		
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries pursuant to legislation	2.6	2.7
Other services pursuant to legislation <sup>2</sup>	20.5	4.2
Other services related to taxation	4.3	1.5
All other services	1.4	0.5

1 The first set of statutory accounts have been prepared for the year ended 31 December 2007.

2 Comprises primarily services in relation to the preparation for the Listing of the Company.

**12. EMPLOYEE BENEFIT EXPENSE**

In millions of US\$	Note	Years ended 31 December	
		2007	2006
Wages and salaries		(587)	(351)
Social security costs		(57)	(42)
Pensions costs		(1)	(1)
<b>Total employee benefit expense</b>		<b>(645)</b>	<b>(394)</b>
<b>Average number of employees</b>	4	<b>64,150</b>	<b>62,000</b>

Included in the total employee benefit expense for 2007 is US\$150 million relating to costs expensed in relation to the IPO of which US\$145 million is included in wages and salaries and US\$5 million is in social security costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 13. FINANCE INCOME

In millions of US\$	Years ended 31 December	
	2007	2006
Interest income from loans and receivables	45	15
Bank interest income	13	9
<b>Total finance income</b>	<b>58</b>	<b>24</b>

## 14. FINANCE COST

In millions of US\$	Note	Years ended 31 December	
		2007	2006
Interest expense on bank borrowings		(54)	(13)
Interest expense on promissory notes	5	(32)	(2)
Amortisation of financial instruments discount		(22)	(9)
Amortisation of financial instruments discount-related parties	5	(5)	(7)
Other finance costs		(27)	–
Other interest expense		(9)	(3)
Other interest expense-related parties	5	(7)	(17)
Finance lease costs		–	(2)
Unwinding of asset retirement obligation discount	27	(4)	(3)
Less capitalised borrowing costs	17	2	6
<b>Total finance cost</b>		<b>(158)</b>	<b>(50)</b>

The capitalised borrowing costs arose principally on financing directly attributable to the construction of the aluminium smelter plant in Kazakhstan Aluminium Smelter JSC. The average capitalisation rate was 9.0% for the year ended 31 December 2007 (2006 : 9.0%).

## 15. INCOME TAXES

Income tax expense comprises the following:

In millions of US\$	Years ended 31 December	
	2007	2006
Corporate income tax – current year	(474)	(250)
Corporate income tax – prior periods	(22)	–
Deferred tax expense – current year	(11)	(35)
<b>Income tax expense for the year</b>	<b>(507)</b>	<b>(285)</b>

Taxation has been provided at current rates on the profits earned in the period. The effective tax rate is higher than the statutory rate due primarily to costs incurred in relation to the Listing on the London Stock Exchange which are not tax deductible and interest costs incurred in the UK which are not available to offset against current year profits. All taxation in the table above is overseas taxation.

The effective rate of tax, excluding the costs relating to the Listing which are non-recurring, is 34%.

## Factors affecting future tax charges

Future tax charges are affected by the mix of profits in the various tax jurisdictions in which the Group operates, and by the level of excess profits tax payable in Kazakhstan.

Reconciliation between the expected and the actual taxation charge is provided below.

In millions of US\$	Years ended 31 December	
	2007	2006
<b>Profit before tax</b>	<b>1,321</b>	<b>971</b>
Notional tax charge at UK corporation tax rate 30% (2006 : 30%)	396	291
Items not deductible for tax purposes	62	39
Effects of different tax rates in other countries	(78)	(48)
Income not chargeable for tax purposes	(12)	(7)
Excess profits tax – current year	33	–
– prior periods	5	–
Utilisation of previously unrecognised tax loss carry forwards	–	7
Unrecognised deferred tax asset	89	–
Prior year adjustment	17	–
Other	(5)	3
<b>Income tax expense for the year, an effective rate of 38% (2006 : 29%)</b>	<b>507</b>	<b>285</b>

During 2007, the Group incurred non-recurring costs, which have been treated as not tax deductible, of US\$38 million, a tax effect of US\$11.3 million, as a consequence of seeking a Listing on the London Stock Exchange.

**15. INCOME TAXES CONTINUED****Deferred taxation**

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 30% at 31 December 2007 (2006 : 30%).

Temporary timing differences comprise of deferred tax on provisions against receivables, employee bonuses, benefits and pensions, and other similar short-term deposits.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of US\$2,164 million (2006 : US\$1,799 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In millions of US\$	31 December 2006	Charged/ (credited) to Income Statement	Charged/ (credited) to Equity	Translation to presentation currency	31 December 2007
<b>Gross deferred tax asset</b>					
Temporary timing differences	(62)	(43)	–	(3)	<b>(108)</b>
Less offsetting with deferred tax liabilities	50	46	–	4	<b>100</b>
<b>Recognised deferred tax asset</b>	<b>(12)</b>	<b>3</b>	<b>–</b>	<b>1</b>	<b>(8)</b>
US\$38 million of the gross deferred tax asset is expected to reverse within 12 months.					
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment	315	48	–	18	<b>381</b>
Other temporary timing differences	15	6	(9)	2	<b>14</b>
Gross deferred tax liability	330	54	(9)	20	<b>395</b>
Less offsetting with deferred tax assets	(50)	(46)	–	(4)	<b>(100)</b>
<b>Deferred tax liability</b>	<b>280</b>	<b>8</b>	<b>(9)</b>	<b>16</b>	<b>295</b>

US\$31 million of the gross deferred tax liability is expected to reverse within 12 months.

In millions of US\$	1 January 2006	Charged/ (credited) to income statement	Translation to presentation currency	31 December 2006
<b>Tax effect of deductible temporary differences and tax loss carry forwards</b>		(57)	(3)	(62)
<b>Gross deferred tax asset</b>		(57)	(3)	(62)
Less offsetting with deferred tax liabilities		43	5	50
<b>Recognised deferred tax asset</b>		(14)	2	(12)
<b>Tax effect of taxable temporary differences</b>				
Property, plant and equipment		268	34	315
Other temporary timing differences		10	4	15
Gross deferred tax liability		278	38	330
Less offsetting with deferred tax assets		(43)	(5)	(50)
<b>Recognised deferred tax liability</b>		<b>235</b>	<b>33</b>	<b>280</b>

The Group has unrecognised deferred tax assets in respect of deductible temporary differences of US\$89 million for the year ended 31 December 2007 (2006 : US\$nil). It is probable that future taxable profit will not be available to utilise the benefits of these temporary differences.

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**16. EARNINGS PER SHARE AND DIVIDENDS PER SHARE**

Basic earnings per share ('EPS') is calculated by dividing net profit for the year attributable to ordinary equity shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. The Group has no dilutive potential ordinary shares.

The following reflects the income and adjusted share data used in the EPS computations:

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Net profit attributable to equity shareholders of the Group</b>		<b>798</b>	550
Exceptional items attributable to equity shareholders of the Group	9	182	6
Net profit before exceptional items		980	556
Number of shares:			pro-forma
Weighted average number of ordinary shares*		1,015,767,123	1,000,000,000
<b>EPS – basic and diluted (US\$)</b>		<b>0.79</b>	0.55
<b>EPS before exceptional items (US\$)</b>		<b>0.97</b>	0.56

\* For 2006, the EPS calculation has assumed that the ordinary shares in issue pursuant to share exchange agreements in relation to the acquisition of the Group have been in issue throughout the period, and is calculated after taking into account the share split which occurred on 8 November 2007.

The dividends paid in 2007 and 2006 were pre-IPO dividends amounting to US\$500 million (US\$0.49 per share) and US\$187 million (US\$0.19 per share) respectively.

**17. PROPERTY, PLANT AND EQUIPMENT**

Movements in the carrying amount of property, plant and equipment are as follows:

Year ended 31 December 2007 In millions of US\$	Freehold land	Buildings and mining construction	Plant and equipment	Vehicles	Assets under construction	Total
<b>Cost at 1 January 2007</b>	46	896	1,393	456	493	3,284
Additions	1	39	101	52	718	911
Transfers	–	246	443	38	(727)	–
Disposals	(4)	(13)	(47)	(6)	(15)	(85)
Exchange differences	2	56	88	27	27	200
<b>At 31 December 2007</b>	<b>45</b>	<b>1,224</b>	<b>1,978</b>	<b>567</b>	<b>496</b>	<b>4,310</b>
<b>Accumulated depreciation at 1 January 2007</b>	–	(172)	(400)	(160)	(9)	(741)
Disposals	–	3	2	8	–	13
Depreciation charge	–	(57)	(163)	(58)	–	(278)
Impairment charge	–	(2)	(11)	–	(12)	(25)
Exchange differences	–	(11)	(26)	(10)	–	(47)
<b>At 31 December 2007</b>	<b>–</b>	<b>(239)</b>	<b>(598)</b>	<b>(220)</b>	<b>(21)</b>	<b>(1,078)</b>
<b>Net balance sheet amount at 31 December 2007</b>	<b>45</b>	<b>985</b>	<b>1,380</b>	<b>347</b>	<b>475</b>	<b>3,232</b>
Held under finance leases (refer to note 26)	–	–	2	–	–	2
Other property, plant and equipment pledged as security (refer to note 32)	–	–	13	4	–	17

## 17. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Year ended 31 December 2006 In millions of US\$	Freehold land	Buildings and mining construction	Plant and equipment	Vehicles	Assets under construction	Total
<b>Cost at 1 January 2006</b>	42	790	1,133	394	271	2,630
Additions	4	23	54	37	445	563
Transfers	–	63	162	11	(236)	–
Disposals	(3)	(23)	(15)	(6)	(1)	(48)
Exchange differences	3	43	59	20	14	139
<b>At 31 December 2006</b>	46	896	1,393	456	493	3,284
Accumulated depreciation						
At 1 January 2006	–	(108)	(260)	(105)	(3)	(476)
Disposals	–	2	9	4	–	15
Depreciation charge	–	(60)	(134)	(53)	–	(247)
Impairment charge	–	–	–	–	(6)	(6)
Exchange differences	–	(6)	(15)	(6)	–	(27)
<b>At 31 December 2006</b>	–	(172)	(400)	(160)	(9)	(741)
<b>Net balance sheet amount at 31 December 2006</b>	46	724	993	296	484	2,543
Held under finance leases (refer to note 26)	–	–	7	–	–	7
Other property, plant and equipment pledged as security (refer to note 32)	–	13	–	–	–	13

Additions to assets under construction include US\$2 million for the year ended 31 December 2007 (2006 : US\$6 million) of capitalised borrowing costs.

## 18. GOODWILL AND INTANGIBLE ASSETS

In millions of US\$	Note	Goodwill	Other	Total
<b>Cost at 1 January 2006</b>		–	5	5
Goodwill created on restructuring of government interest	2	384	–	384
<b>Carrying amount at 31 December 2006</b>		384	5	389
<b>Cost at 1 January 2007</b>		384	5	389
Addition		–	1	1
<b>Carrying amount at 31 December 2007</b>		384	6	390

Goodwill arose in 2006 on the exchange by the Committee of its minority interests in various operating subsidiaries for a 24.9% interest in the Company (refer to note 1a).

Goodwill is allocated to the Group's cash-generating units ('CGUs') identified according to country of operation and business segments.

Goodwill is tested for impairment on an annual basis in accordance with the policy disclosed in note 1p. The recoverable amounts of goodwill have been assessed by reference to 'value in use'. The discount rate used is 7.4%.

As at 31 December 2007 there is no impairment of goodwill.

The carrying amount of goodwill is allocated to cash-generating units as follows:

In millions of US\$	As at 31 December	
	2007	2006
EEC	31	31
SSGPO JSC	170	170
TNC Kazchrome JSC	183	183
<b>Total carrying amount of goodwill</b>	<b>384</b>	<b>384</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

In millions of US\$	As at 31 December	
	2007	2006
<b>Current</b>		
Commercial paper	170	–
Equity investments	–	21
<b>Total financial assets</b>	<b>170</b>	<b>21</b>

At 31 December 2007, Commercial paper of US\$170 million consists of IPO proceeds invested in money market securities with a maturity of greater than three months and less than one year.

Equity investments at 31 December 2006 comprised 290,200 shares of ATF Bank JSC ('ATF Bank') and were designated as financial assets at fair value through the income statement. In October 2006, the Group purchased 580,400 shares of ATF Bank at a price of US\$59.48 (the 'purchase price') per share for US\$35 million to invest surplus funds and gain income from favourable movement of share prices. In accordance with the verbal agreement between the Group and the shareholders of ATF Bank (the 'Seller'), should share market price fall below the purchase price, the Seller is obliged to purchase back all the shares from the Group at purchase price; should the share market price exceed the purchase price, the Group is obliged to sell 50% of the shares back to the Seller at the purchase price, the other 50% of the shares to be managed by the Group at its own discretion.

As, according to the verbal agreement, 50% of the shares were to be repurchased by the Seller, at purchase price, regardless of market price movement, the Group treated the amount of US\$17 million, a carrying amount of 50% of the shares at 31 December 2006, as receivable secured by the shares and recorded at amortised cost (refer to note 20).

The remaining 50% of the shares were treated as equity investments at fair value through the income statement. The fair value of the ATF Bank shares was based on their current bid prices in an active market. At 31 December 2006 the shares had a fair value of US\$73.62 per share. Accordingly, the Group recognised a fair value gain of US\$3 million for the year ended 31 December 2007 (2006 : US\$4 million gain). The Group sold its 50% of the shares for US\$24 million during May 2007.

## 20. LOANS RECEIVABLE

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Non-current</b>			
Loans receivable from related parties	5	7	21
		7	21
<b>Current</b>			
Loans receivable from related parties	5	26	208
Other loans receivable		2	32
		28	240
<b>Total loans receivable</b>		<b>35</b>	<b>261</b>

Other loans receivable at 31 December 2006 include 290,200 shares of ATF Bank JSC ('ATF Bank'). The shares were sold in May 2007. Refer to note 19.

The Group's loans mature as follows:

In millions of US\$	As at 31 December	
	2007	2006
Less than 1 year	28	240
Between 1 and 2 years	4	14
Between 2 and 5 years	3	7
<b>Total loans receivable</b>	<b>35</b>	<b>261</b>

## Eurasian Financial Industrial Company JSC

As at 31 December 2007, all amounts due from Eurasian Financial Industrial Company JSC, equalling US\$19 million, have been reassigned to ENRC NV as part of the Shareholders' Settlement Agreement.

## International Mineral Resources AG

During 2006, US\$21 million was loaned to International Mineral Resources AG. Interest was charged on the loan at six months LIBOR plus 1.0%. As at 31 December 2007, this facility has been settled fully.

## 20. LOANS RECEIVABLE CONTINUED

### IMR Marketing AG

During 2006, the Group entered into two loan agreements with IMR Marketing AG for the amount of US\$8 million. An additional loan agreement was made in 2007 for the amount of US\$6 million. Interest was charged on the loan at three months LIBOR plus 1.5%. As of 31 December 2007, the amount receivable by the Group equalled US\$14 million.

### Promyshlennoye Zhilishnoye Stroitelstvo LLP ('PZS')

During 2006, the Group entered into three agreements with PZS under which the Group agreed to provide a total of US\$20 million without collateral as interest-free financial support. During 2007 two loans were settled. As at 31 December 2007, the amount receivable equalled US\$3 million (2006 : US\$14 million).

### Sary-Arka SpetsKoks LLP

To purchase production equipment, Sary-Arka SpetsKoks LLP received 19 loans amounting to US\$11 million, for a period of five years at the contractual annual rate of 12%. The effective interest rate for this loan was 12% as at 31 December 2006. Pursuant to the Shareholders' Settlement Agreement all outstanding amounts have been settled in full to the Group as at 31 December 2007.

### CIM Global Investments NV

During 2006, a US\$16 million credit facility was made available to CIM Global Investments NV. CIM Global Investments NV is controlled and beneficially owned by the Founder Shareholders. Interest is charged on the credit facility at a rate of three months LIBOR plus 2%. As at 31 December 2007, this facility had been settled.

### ENRC Kazakhstan Holding BV

Loan amounts outstanding with ENRC Kazakhstan Holding BV totalled US\$115 million at the end of 2006. Interest was charged at LIBOR plus 1.0%. The loan was settled in full during 2007.

The fair value of loans and receivables equals their carrying amount, as the impact of discounting is not significant. The fair values of current and non-current loans and receivables are determined using discounted cash flows at the interest rates prevailing on the balance sheet date.

The Group's loans receivable are denominated in currencies as follows:

In millions of US\$	As at 31 December	
	2007	2006
US dollars	31	189
Kazakhstani tenge	4	72
<b>Total loans receivable</b>	<b>35</b>	<b>261</b>

## 21. OTHER NON-CURRENT ASSETS

In millions of US\$	Note	As at 31 December	
		2007	2006
Prepayments for property, plant and equipment and related services		208	33
Long-term deposits and restricted cash held by related parties	5	5	6
Prepayment for Serov acquisition	5	100	–
Other advances and non-current assets		8	2
Other advances and non-current assets – related parties		1	2
<b>Total other non-current assets</b>		<b>322</b>	<b>43</b>

Long-term deposits and restricted cash mainly represent bank guarantee deposits in the amount of US\$3 million at 31 December 2007 (2006 : US\$3 million) with maturity dates on 28 August 2020 and 31 March 2021, securing the mortgage liabilities of certain Group employees. The bank guarantee deposits are interest free and carried at amortised cost. In addition, the balance of restricted cash includes bank deposits for special funds for the retirement of assets in accordance with the requirements of contracts on subsurface use (refer to note 27). The fair value of restricted cash is not significantly different from its carrying value.

Prepayments for property, plant and equipment and related services are for machinery and equipment, in particular vehicles and power generating units required by the plants. US\$8 million of the balance relates to letters of credit with Eurasian Bank JSC pertaining to purchases of property, plant and equipment, refer to note 5 (2006 : US\$ nil).

In July 2007, the Group transferred US\$100 million to a subsidiary of International Mineral Resources BV, a company controlled by the Founder Shareholders, as a partial prepayment for the Group's acquisition (refer to note 36) of the Serov Group. The Serov Group's principal activity comprises the mining of chrome ore, processing and sale of ferroalloys.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 22. INVENTORIES

In millions of US\$	As at 31 December	
	2007	2006
Finished goods	166	117
Raw materials	149	133
Consumable stores	88	81
Work in progress	40	34
Other inventory	1	–
	444	365
Less provision for obsolete and slow-moving inventory	(6)	(4)
<b>Total inventories</b>	<b>438</b>	<b>361</b>

There are no inventories pledged as security as at 31 December 2007 and 2006.

## 23. TRADE AND OTHER RECEIVABLES

In millions of US\$	Note	As at 31 December	
		2007	2006
Trade receivables		412	313
Trade receivables from related parties	5	41	21
Term deposits		65	–
Term deposits with related parties	5	138	38
VAT recoverable		135	117
Advances to suppliers		70	25
Prepayments		58	17
Restricted cash	32	34	–
Income tax prepayment		13	28
Advances to related parties	5	11	34
Prepayments to related parties	5	9	11
Letters of credit from related parties	5	8	1
Other receivables		17	19
Other amounts due from related parties	5	38	21
		1,049	645
Less provision for impairment of trade and other receivables		(4)	(8)
<b>Total trade and other receivables</b>		<b>1,045</b>	<b>637</b>

The fair value of trade and other receivables approximates the carrying value.

As at 31 December 2007, trade and other receivables of US\$99 million (2006 : US\$88 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

In millions of US\$	As at 31 December	
	2007	2006
Less than 3 months	91	83
Between 3 to 6 months	2	2
Between 6 to 12 months	6	3
<b>Total trade receivables</b>	<b>99</b>	<b>88</b>

The Group's trade and other receivables are denominated in currencies as follows:

In millions of US\$	As at 31 December	
	2007	2006
US dollars	618	236
Kazakhstani tenge	326	326
Russian roubles	58	52
British pounds	26	1
European euros	17	16
Swiss francs	–	6
<b>Total trade and other receivables</b>	<b>1,045</b>	<b>637</b>

## 24. CASH AND CASH EQUIVALENTS

In millions of US\$	As at 31 December	
	2007	2006
Cash at bank and in hand	529	137
Short-term deposits	2,019	199
<b>Total cash and cash equivalents</b>	<b>2,548</b>	<b>336</b>

Of the remaining IPO proceeds amounting to US\$2,461 million as at 31 December, US\$2,291 million is included in cash and cash equivalents and US\$170 million is included in 'commercial paper' in financial assets at fair value through income statement (refer to note 19).

The Group's cash and cash equivalents are denominated in currencies as follows:

In millions of US\$	As at 31 December	
	2007	2006
US dollars	1,982	274
European euros	299	5
British pounds	162	1
Kazakhstani tenge	89	46
Russian roubles	16	9
Swiss francs	–	1
<b>Total cash and cash equivalents</b>	<b>2,548</b>	<b>336</b>

## 25. SHARE CAPITAL

	Number (allotted and called up)	Share capital		Share premium
		£000	US\$000	US\$000
<b>As at 8 December 2006</b>	50,000	13		
Issuance of ordinary shares of US\$10 each	20,000,000	–	200,000	–
Reverse share split of 50,000 ordinary shares to one special share of £50,000 (one-quarter paid)	(49,999)	–	–	–
<b>As at 31 December 2006</b>	20,000,001	13	200,000	–
Share split	980,000,000	–	–	–
Redemption of special share	(1)	(13)	–	–
Issuance of shares on IPO	287,750,000	–	57,550	2,999,023
<b>As at 31 December 2007</b>	<b>1,287,750,000</b>	<b>–</b>	<b>257,550</b>	<b>2,999,023</b>

The Company was incorporated and registered in England and Wales on 8 December 2006 as a public limited company with a share capital of £50,000 divided into two ordinary shares of £1 each and 49,998 non-cumulative redeemable preference shares of £1 each. The share capital was one-quarter paid. On 19 December 2006, the Board resolved to effect the transfer of the two ordinary shares and 49,998 redeemable preference shares to the Committee. On the same day the authorised share capital of the Company was increased from £50,000 to £50,000 and US\$200,000,000 by the creation and issuance of 20,000,000 new ordinary shares of US\$10 each as part of the acquisition of ENRC NV. refer to note 1a. In addition, the 49,998 non-cumulative redeemable preference shares of £1 each held by the Committee, were re-designated as ordinary shares of £1 each, the resulting 50,000 ordinary shares of £1 each were consolidated into one ordinary share of £50,000 and then the ordinary share was re-designated as a special share.

### Share split

At an Extraordinary General Meeting of the Company held on 8 November 2007, each of the issued, and each of the authorised but unissued, ordinary shares of US\$10.00 par value each in the capital of the Company was subdivided into 50 ordinary shares of US\$0.20 par value each. On the same day, the total authorised number of shares was increased to 2,000,000,000.

As at 31 December 2007, the total authorised number of shares is 2,000,000,000.

### Issuance of shares on IPO

On 12 December 2007, the Company successfully completed its IPO and Listed on the London Stock Exchange. A total number of 277,750,000 shares with a par value of US\$0.20 each were issued at £5.40 for total proceeds of £1.5 billion. Costs related to the issuance of new shares and attributable IPO costs taken against share premium amounted to US\$96 million.

A further 10,000,000 ordinary shares with a par value of US\$0.20 each were awarded to Directors, management, senior employees and professional advisers as part of the IPO Plan. The share awards are subject to a restriction period of one year from the date of the IPO, during which any dealings are prohibited. Refer to note 5.

### Redemption of special share

Pursuant to the Company's articles of association, the one special share of nominal value of £50,000 held by the Committee was cancelled upon admission of the Company's shares to the London Stock Exchange. As the share was only one-quarter paid up, £12,500 was paid to the Committee upon cancellation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 26. BORROWINGS

In millions of US\$	Note	As at 31 December	
		2007	2006
<b>Non-current</b>			
Bank borrowings		1,030	–
Bank borrowings from related parties	5	–	12
Bonds		32	31
Term loans		2	–
Term loans from related parties	5	–	25
Promissory notes issued to related parties	5	–	800
Preference shares		–	2
Finance lease liabilities	17	1	1
Finance lease liabilities with related parties	5, 17	–	5
		1,065	876
<b>Current</b>			
Bank borrowings		357	162
Bank borrowings from related parties	5	–	1
Term loans		–	31
Term loans from related parties	5	–	213
Bonds		1	–
Promissory notes issued to related parties	5	–	200
Finance lease liabilities with related parties	5, 17	1	1
		359	608
<b>Total borrowings</b>		<b>1,424</b>	<b>1,484</b>

Total borrowings include secured liabilities (bank and collateralised borrowings) of US\$4 million at 31 December 2007 (2006 : US\$83 million).

The Group's borrowings mature as follows:

In millions of US\$	As at 31 December	
	2007	2006
Less than 1 year	359	608
Between 2 and 5 years	1,033	840
After 5 years	32	36
<b>Total borrowings</b>	<b>1,424</b>	<b>1,484</b>

The Group's borrowings are denominated in currencies as follows:

In millions of US\$	As at 31 December	
	2007	2006
US dollars	1,374	1,354
European euros	–	6
Kazakhstani tenge	50	124
<b>Total borrowings</b>	<b>1,424</b>	<b>1,484</b>

The effective interest rates at balance sheet date were as follows:

In % p.a.	Floating interest rates			Fixed interest rates		
	KZT	US\$	EUR	KZT	US\$	EUR
<b>As at 31 December 2007</b>						
Bank loans	– LIBOR plus 1.35%	–	11.0%–14.0%	–	–	–
Term loans	–	–	13.7%	–	–	–
Finance lease liabilities	–	–	13.9%	–	–	–
Bonds	9.5%–9.8%	–	–	–	–	–
<b>As at 31 December 2006</b>						
Bank loans	– LIBOR plus 1.5%	–	11.0%–13.0%	–	–	–
	13.7%–14.9%	–	–	–	–	–
Term loans	–	–	13.3%	5.0%–16.8%	–	12.6%
Promissory notes issued	– LIBOR plus 2.0%	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	10.0%
Bonds	9.7%	–	–	–	–	–

## 26. BORROWINGS CONTINUED

The carrying values and fair values are as follows:

In millions of US\$	Note	Carrying values		Fair values	
		2007	2006	2007	2006
Bank borrowings		1,387	162	1,389	162
Bank borrowings from related parties	5	–	13	–	13
Bonds		33	31	33	30
Term loans		2	31	2	31
Term loans from related parties		–	238	–	244
Promissory note issued to related parties	5	–	751	–	751
Promissory note issued		–	249	–	249
Preference shares		–	2	–	2
Finance lease liabilities		1	1	1	–
Finance lease liabilities with related parties	5	1	6	1	2
<b>Total borrowings</b>		<b>1,424</b>	<b>1,484</b>	<b>1,426</b>	<b>1,484</b>

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values of current and non-current borrowings are determined using discounted cash flows at the interest rates 5.0%–14.4% prevailing as at 31 December 2007 (2006 : 5.0%–16.1%).

### Bank borrowings from related parties

#### Turan Alem Bank

During 2007 Company Zhol zhondeushi LLP, SSGPO JSC ('SSGPO'), TNC Kazchrome JSC ('Kazchrome') signed various short-term loan agreements with Turan Alem Bank Kazakhstan and Bank Centre Credit Kazakhstan for a total of US\$13 million, denominated in Kazakhstani tenge. The majority of the loans bore annual interest at the rate of 13.0% on inception.

### Bonds

In April 2006, a subsidiary of the Group issued US\$31 million 8.0% non-convertible bonds, due on 5 April 2013, which are listed on the Kazakhstan Stock Exchange. Interest is payable semi-annually on 5 April and 5 October each year. From 5 October 2006, the coupon has changed to a floating rate equal to the official inflation rate plus 1.0% mark-up with lower and upper limits being fixed at 2.0% and 10.0% per annum. At 31 December 2007 the coupon rate was 9.5%–9.8% per annum (2006 : 9.7% per annum).

### Structured Trade Finance Facility

On 15 December 2006, ENRC Marketing AG entered into a US\$1,000 million structured trade finance facility (the 'Facility'). By Supplemental Agreement dated 12 April 2007, the Facility was increased to US\$1,480 million. As at 31 December 2007, US\$1,374 million of the Facility was drawn down (2006 : US\$nil).

The Facility is secured principally by grants of security over certain sales contracts entered into by ENRC Marketing AG and third party buyers (and all receivables thereunder). The associated accounts receivable balance at 31 December 2007 was US\$261 million. All monies payable by the end purchasers under the sales contracts are required to be paid into bank accounts which are also used to secure the Facility. Withdrawals from these bank accounts are subject to restrictions imposed under the terms of the Facility Agreement. The Group agreed to certain restrictive covenants in respect of Kazchrome, as guarantor of the loan, which prohibit Kazchrome from having total debt of greater than US\$100 million outstanding at any time during the duration of the Facility. In addition, the guarantee provides for other restrictions on Kazchrome including on payment of dividends, giving guarantees or indemnities, creating security interests or changing its business.

The Facility has a term of five years. Following a grace period of 12 months, the Facility will be repaid in 48 equal and consecutive monthly instalments beginning in January 2008.

The interest rate applicable to the loan is one month LIBOR plus 1.35% per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**27. ASSET RETIREMENT OBLIGATIONS**

The Group has a legal obligation to landfill site restoration during the mining operations and decommissioning of its mining property after its expected closure. The timing of decommissioning activity is subject to reassessment at the same time as the revision of the Group's proved and probable reserves.

In millions of US\$	As at 31 December	
	2007	2006
Current portion of provisions for asset retirement obligations	–	1
Non-current portion of provisions for asset retirement obligations	86	43
<b>Total provisions for asset retirement obligations</b>	<b>86</b>	<b>44</b>

Movements in asset retirement obligations are as follows:

In millions of US\$	Note	Site restoration	Landfill decommissioning	Total
<b>At 1 January 2006</b>		19	15	34
Capitalisation of additional closure costs		3	2	5
Unwinding of discount	14	2	1	3
Exchange differences on currency translation		1	1	2
<b>At 31 December 2006</b>		<b>25</b>	<b>19</b>	<b>44</b>
<b>At 1 January 2007</b>		25	19	44
Capitalisation of additional closure costs		16	22	38
Unwinding of discount	14	2	2	4
Production costs		1	–	1
Utilised during the year		(1)	–	(1)
<b>At 31 December 2007</b>		<b>43</b>	<b>43</b>	<b>86</b>

In accordance with the Contracts on Subsurface Use, the Group makes annual obligatory contributions to form a deposit fund for the closure costs which will take effect upon exhaustion of the mineral deposits between 2045 and 2074 (refer to note 21).

The amount of the provision for asset retirement obligations is determined using the nominal prices effective at the reporting dates by applying the forecasted rate of inflation for the expected period of the life of the mines. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the level of discount and inflation rates.

Principal assumptions made in calculations of asset retirement obligations are presented below:

	As at 31 December	
	2007	2006
Discount rate	7.4%	8.0%
Inflation rate	8.3%	7.4%

**28. EMPLOYEE BENEFIT OBLIGATIONS**

The amounts recognised in the balance sheet are determined as follows:

In millions of US\$	Years ended 31 December	
	2007	2006
Present value of unfunded defined benefit obligation at beginning of the year	48	32
Interest cost	1	2
Benefits paid	(1)	(1)
Current service cost	6	1
Actuarial (gains)/losses	(2)	12
Currency translation differences	–	2
<b>Present value of unfunded defined benefit obligation at end of the year</b>	<b>52</b>	<b>48</b>
<b>Net liability</b>	<b>52</b>	<b>48</b>

The present value of unfunded defined benefit obligation as at 31 December 2005 and 2004 was US\$32 million and US\$29 million respectively.

**28. EMPLOYEE BENEFIT OBLIGATIONS CONTINUED**

Amounts recognised in the income statement are as follows:

In millions of US\$	Years ended 31 December	
	2007	2006
Interest cost	1	2
Current service cost	6	1
Actuarial (gains)/losses	(2)	12
<b>Expense recognised in income statement</b>	<b>5</b>	<b>15</b>

For the year ended 31 December 2007, actuarial losses and current service costs are included in the income statement as part of cost of sales in the amount of US\$2 million (2006 : US\$10 million), part of selling, general and administration expense in the amount of US\$2 million (2006 : US\$2 million) and part of other expenses and capitalised costs in the amount of nil (2006 : US\$1 million).

In millions of US\$	As at 31 December	
	2007	2006
<b>Cumulative amount of actuarial gains and losses recognised in the income statement</b>	<b>15</b>	<b>17</b>

The cumulative amount of actuarial gains and losses recognised in the income statement for the years ended 31 December 2005 and 2004 was US\$5 million and US\$5 million respectively.

Principal actuarial assumptions used at the balance sheet date were as follows:

In % p.a.	Years ended 31 December	
	2007	2006
Discount rate at 31 December	5.0%–8.0%	5.0%
Future salary increases	7.0%–13.0%	5.5%–10.0%
Average labour turnover rate of production personnel	6.0%–21.0%	4.1%–18.5%
Average labour turnover rate of administrative personnel	1.0%–12.0%	1.9%–14.8%

Assumptions regarding future mortality are based upon advice in accordance with published statistics and experience in Kazakhstan.

The future average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date are as follows:

	As at 31 December	
	2007	2006
Male	11	11
Female	15	15

The future average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	As at 31 December	
	2007	2006
Male	12	12
Female	16	16

**29. TRADE AND OTHER PAYABLES**

In millions of US\$	Note	Years ended 31 December	
		2007	2006
Trade payables		107	90
Accruals relating to employee entitlements		106	51
Advances received from customers		91	28
Derivative financial instruments	33	19	–
Payable to related parties	5	6	65
Distributions payable	5	4	133
Accruals and deferred income		3	3
Other payables		34	23
<b>Trade and other payables</b>		<b>370</b>	<b>393</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 30. OTHER TAXES PAYABLE

In millions of US\$	Years ended 31 December	
	2007	2006
Withholding taxes	42	39
Property and other taxes	15	9
VAT payable	26	11
Social taxes	10	3
<b>Total other taxes payable</b>	<b>93</b>	<b>62</b>

## 31. CASH GENERATED FROM OPERATIONS

In millions of US\$	Note	Years ended 31 December	
		2007	2006
<b>Profit after tax</b>		<b>814</b>	<b>686</b>
<b>Adjustment for</b>			
Depreciation of property, plant and equipment	17	278	247
Loss from disposal of property, plant and equipment	10	1	9
Impairment of property, plant and equipment	17	25	6
Provisions for impairment on inventory		1	–
Actuarial movements in employee benefit obligations		5	15
Income tax expense		507	285
Finance costs (net)		100	26
Fair value losses on derivative financial assets		46	–
<b>Changes in operating working capital:</b>			
Trade and other receivables		(241)	(147)
Employee related liabilities		46	–
Inventories		(64)	–
Other taxes payable		25	33
Trade and other payables		104	(107)
<b>Cash flows from operating activities</b>		<b>1,647</b>	<b>1,053</b>
Interest paid		(155)	(45)
Interest received		56	8
Income tax paid		(469)	(277)
<b>Net cash generated from operating activities</b>		<b>1,079</b>	<b>739</b>

## Non-cash transactions

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement. Non-cash transactions consisted of:

- The acquisition of property, plant and equipment in exchange for inventory, and heat and power engineering services of US\$3 million for the year ended 31 December 2007 (2006 : nil).
- As described in note 1a, the Group acquired minority interest shareholdings in its subsidiaries from the Kazakhstani Government in exchange for 24.9% of shares in the Company. The value attributed to the Plc shares exchanged amounted to US\$1,094 million.
- In June 2007, the Group undertook a series of transactions to consolidate a number of assets and liabilities outstanding with various companies under the control of the Founder Shareholders. A total amount of borrowings from related parties of US\$391 million and receivables from those parties of US\$200 million were offset, with the balance of US\$191 million settled in cash. Refer to Shareholders' Settlement Agreement in note 5.

## 32. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

## Legal proceedings

From time to time and in the normal course of business, claims against the Group are received, including those arising from tax inquiries. On the basis of management estimates and both internal and external professional advice, it is not anticipated that any material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

## Tax legislation

Kazakhstani tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and frequent changes which may be applied retroactively. The interpretation of tax, transfer pricing and excess profit tax legislation by the Kazakhstani tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and fines. Tax periods remain open to review by the Kazakhstani tax authorities for five years.

### 32. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

As stated above, there is a risk that the Kazakhstani tax authorities may challenge the methods applied to transfer pricing and excess profits tax. An audit of the tax affairs of the Group for the three years ended 31 December 2006 was commenced in February 2008 by the Kazakhstani tax authorities. Whilst any challenge may result in material claims being made against the Group, management believes that, based on recent clarifications obtained from the relevant authorities, they would be successful in defending any such challenge.

Accordingly, at 31 December 2007, no provision for potential additional tax liabilities had been recorded (2006 : nil).

#### Capital expenditure commitments

In millions of US\$	As at 31 December	
	2007	2006
Property, plant and equipment	497	343
Intangible assets	–	5
<b>Total capital expenditure commitments</b>	<b>497</b>	<b>348</b>

Refer to note 5 for the details of the committed capital expenditure investment programme at EEC.

#### Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

In millions of US\$	As at 31 December	
	2007	2006
SSGPO	22	35
Kazchrome	12	14
EEC	1	1
Aluminium of Kazakhstan JSC	–	1
Remput LLP	–	24
Company Zhol zhondeushi LLP	–	24
Other	–	4
<b>Total guarantees</b>	<b>35</b>	<b>103</b>

#### Assets pledged and restricted

The Group has the following assets pledged as collateral:

In millions of US\$	Note	As at 31 December			
		2007		2006	
		Asset pledged	Related liability	Asset pledged	Related liability
Property, plant and equipment	17	17	–	13	1
Long-term deposits and restricted cash – related party	5, 21	5	–	6	–
Restricted cash	23	34	1,374	–	–
Accounts receivable	23, 26	261		–	–
<b>Total assets pledged and restricted</b>		<b>317</b>	<b>1,374</b>	<b>19</b>	<b>1</b>

#### Operating leases

In millions of US\$	As at 31 December							
	2007				2006			
	Due less than 1 year	Due between 2 and 5 years	Due after 5 years	Total	Due less than 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments	15	24	87	126	11	18	20	49

Rental expenses relating to the operating leases of mining facilities and administrative facilities are recognised in 'cost of sales' and 'selling, general and administrative expenses', respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**32. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED****Insurance policies**

The Kazakhstan entities within the Group purchased a primary insurance programme which is placed with a local insurance company in Kazakhstan, as required by Kazakhstani law. ENRC do not utilise the services of an insurance broker. Facultative reinsurance cover is then placed into the European insurance market via Marsh Insurance Brokers in Kazakhstan.

The primary insurance programme covers such risks including:

- property damage, business interruption and machinery breakdown;
- medical expenses;
- employers' liability; and
- various logistics cover.

**Supply commitments**

ENRC Marketing AG has a contract with UC RUSAL to supply a minimum 1 million tonnes of alumina per annum, within 2.0%, plus an option to supply an additional 200 thousand tonnes. The contract expires on 31 December 2016. Pricing is determined by a formula related to the LME aluminium price.

ENRC Marketing AG entered into a 10 year contract from 1 April 2007 to supply up to 15 million tonnes of iron ore per annum to MMK in Russia. The contract selling price will be determined by a formula based on published price indices for iron ore concentrates and pellets.

In August 2007, ENRC Marketing AG entered into a 10 year contract commencing 1 January 2008 to sell 100% of aluminium produced by Kazchrome to Glencore. Sales of primary aluminium will be made by reference to LME aluminium spot prices less sales commission.

**Environmental matters**

The enforcement of environmental regulation is evolving and the enforcement posture of Kazakhstan Government authorities is continually being reconsidered in Kazakhstan. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

**33. DERIVATIVE FINANCIAL INSTRUMENTS**

All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative.

The table below analyses the Group's derivative financial instruments. The amounts disclosed in the table are the carrying balances of the liabilities and assets as at balance sheet date.

In millions of US\$	Note	As at 31 December 2007	
		Assets	Liabilities
<b>Current portion:</b>			
Forward foreign exchange contracts – cash flow hedge	29	–	19
<b>Non-current portion:</b>			
Forward foreign exchange contracts – cash flow hedge		–	51
		–	70

In April 2007, Kazchrome entered into forward foreign exchange contracts with Morgan Stanley & Co. International Limited ('Morgan Stanley') to hedge part of its foreign currency risk. Under the terms of the contract, Kazchrome was required to pay Morgan Stanley amounts of US\$33 million on a monthly basis up to December 2007. Morgan Stanley was required to pay Kazchrome on a monthly basis, Kazakhstani tenge at fixed forward rates up to December 2007. As of 31 December 2007, the contract was fully settled.

In June 2007, SSGPO JSC ('SSGPO') and Aluminium of Kazakhstan JSC ('AoK') entered into forward foreign exchange contracts with Deutsche Bank AG London ('Deutsche Bank') to hedge part of their foreign currency risks. Under the terms of the contracts, SSGPO and AoK are required to pay Deutsche Bank amounts of US\$25 million and US\$15 million, respectively, on a monthly basis up to December 2009. Deutsche Bank is required to pay SSGPO and AoK on a monthly basis, Kazakhstani tenge at fixed forward rates up to December 2009. The average forward rate on these contracts is 120.88 KZT/US\$.

In September 2007, these forward foreign exchange contracts were formally designated as hedge instruments to hedge the foreign exchange currency risk arising from related highly probable forecast transactions expected to occur on a monthly basis up to December 2009.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

The current portion of the hedge is included in trade and other payables (refer to note 29). The non-current portion of the hedge is included in other non-current liabilities.

### 33. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The amount of net unrealised loss on the hedges taken to equity is US\$17 million as of 31 December 2007. The net unrealised loss taken to equity on the forward foreign exchange contracts is recognised in the income statement in the period or periods during which the actual cash flows occur and the hedged forecast transaction affects the income statement. The total amount of realised gain on cash flow hedges recognised in the income statement is US\$4 million for the year ended 31 December 2007. This is included in cost of sales (refer to note 7).

There were no ineffective cash flow hedges.

The Group had no forward foreign exchange contracts as of 31 December 2006.

### 34. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group uses derivative financial instruments to partially hedge foreign exchange exposure.

Financial risk management is the responsibility of the treasury function which identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Treasury Policy outlines principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Credit risk

The Group does not require collateral in respect of financial assets. The Group has credit insurance for the majority of its sales and credit limits are set by the credit insurance company for each customer. For those sales where credit insurance is not available, the Group operates a policy of 'cash on delivery' and 'letters of credit'. The Group regularly monitors its exposure to bad debts in order to minimise their exposure.

At the balance sheet date, there was significant concentration of credit risk principally in respect of cash and deposits held by Eurasian Bank JSC, a related party. Of the total amount (US\$235 million) held by Eurasian Bank, the Group is committed to holding US\$123 million as part of the transitional arrangement until October 2008. Management has implemented a policy of diversifying its credit risk exposure by establishing relationships with a number of international and domestic banks in Kazakhstan.

The Group also generates a significant portion of its revenue from key customers and in particular UC RUSAL and MMK (refer to note 32).

The Group considers its maximum exposure to credit risk related to the uncollateralised balances to be as follows:

In millions of US\$	Note	As at 31 December	
		2007	2006
Cash and cash equivalents	24	2,548	336
Trade and other receivables (excluding prepayments and advances)	23	880	529
Long-term deposits and restricted cash held by related parties	21	5	6
Financial assets at fair value through the income statement	19	170	21
Loans receivable	20	35	261

#### Foreign currency risk

The production costs are denominated in Kazakhstani tenge (KZT) while sales are denominated in US dollars (US\$). The Group is therefore exposed to the risk that movements in exchange rates will affect both its net income and cash flows.

The Group's foreign currency exposure arises from:

- highly probable forecast transactions (sales/purchases) denominated in foreign currencies; and
- monetary items (mainly intercompany receivables, payables and borrowings) denominated in foreign currencies.

The Group is mainly exposed to KZT/US\$ exchange rate risks. The Board of Directors sets limits on the amount of hedging to limit the level of exposure by currency and in total. Compliance with limits is monitored monthly. The Group's policy is to hedge a portion of foreign exchange risk associated with highly probable forecast transactions and monetary items denominated in foreign currencies. The Group uses forward contracts to hedge foreign forward contracts to hedge part of the aforementioned exchange rate risk. Management estimates that those contracts effectively provide for an average rate of US\$1/KZT 120 over the next two years and represents approximately 25% of the Group's Kazakhstani tenge cost base. Any remaining amount remains unhedged.

The forward exchange contracts entered into during 2007 were formally designated as hedges at 18 September 2007 and accordingly hedge accounting has been applied.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**34. FINANCIAL RISK MANAGEMENT CONTINUED**

The table below summarises the foreign currency exposure on the net monetary position of each Group entity against its respective functional currency, expressed in the Group's presentation currency.

In millions of US\$	KZT	US\$	CHF	EUR	GBP	RUB
<b>At 31 December 2007</b>						
Kazakhstan entities (KZT)	n/a	(233)	–	2	–	1
Marketing entities (US\$)	–	n/a	–	295	159	50
Swiss entities (CHF)	–	–	n/a	–	–	–
Netherlands entities (EUR)	–	–	–	n/a	–	–
UK Management entities (GBP)	–	11	–	1	n/a	–
	–	(222)	–	298	159	51
<b>At 31 December 2006</b>						
Kazakhstan entities (KZT)	n/a	484	–	(9)	–	2
Marketing entities (US\$)	–	n/a	(93)	18	4	52
Swiss entities (CHF)	1	(38)	n/a	–	–	–
Netherlands entities (EUR)	–	30	–	n/a	–	–
UK Management entities (GBP)	–	18	–	–	n/a	–
	1	494	(93)	9	4	54

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

In millions of US\$	KZT	US\$	CHF	EUR	GBP	RUB
<b>At 31 December 2007</b>						
Total in the consolidated financial statements	–	(222)	–	298	159	51
Shift in the US exchange rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Increase in profit due to depreciation of US rate	–	n/a	–	14.91	7.97	2.55
Increase in profit due to appreciation of US rate	–	n/a	–	(14.91)	(7.97)	(2.55)
<b>At 31 December 2006</b>						
Total in the consolidated financial statements	1	494	(93)	9	4	54
Shift in the US exchange rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Increase in profit due to depreciation of US rate	0.05	n/a	(4.65)	0.45	0.20	2.70
Increase in profit due to appreciation of US rate	(0.05)	n/a	4.65	(0.45)	(0.20)	(2.70)

\* The above tables exclude the impact of forward foreign exchange contracts which have been hedged.

**Commodity price risk**

The Group is exposed to the effect of fluctuations in commodity prices. The principal exposures are to the price of chrome ore, high, medium and low carbon ferroalloys, ferrosilicon manganese, iron ore and primary aluminium from which the price of alumina is derived. Prices of the aforementioned commodities are generally quoted in US dollars. Of the aforementioned products, only primary aluminium is determined by reference to a publicly traded price.

ENRC does not hedge its exposure to the risk of fluctuations in the price of its products.

**Interest rate risk**

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates impact primarily deposits, loans and borrowings by changing their future cash flows (variable rate). Management does not have a formal policy of determining how much of the Group's exposure should be at fixed or variable rate and the Group does not use hedging instruments to minimise its exposure. However, at the time of taking new loans or borrowings management uses its judgement to determine whether it believes that a fixed or variable rate would be more favourable for the Group over the expected period until maturity. The Group's significant interest bearing assets and liabilities are disclosed in notes 20, 21, 23, 24 and 26.

The Group analyses its sensitivity to interest rates by movements of 1.0% and the pre-tax impact on the profit or loss for the year ended 31 December 2007 is approximately US\$15 million (2006 : US\$6 million).

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As at 31 December 2007, following the receipt of the proceeds from the IPO, the Group had a strong balance sheet and a conservative capital structure. Going forward, the Group intends to maintain a capital structure in line with industry's norms and practices which will be achieved over a period of time, taking into account investment opportunities and availability of debt finance.

**34. FINANCIAL RISK MANAGEMENT CONTINUED**

The Group considers the following balances as a part of its capital management.

In millions of US\$	Note	As at 31 December	
		2007	2006
Borrowings	26	1,424	1,484
Share capital	25	3,257	200
Reserves		2,457	2,011
		<b>7,138</b>	<b>3,695</b>

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to manage its debt level.

**Liquidity risk**

Prudent liquidity risk management means maintaining sufficient cash to finance the ongoing operating and investing activities of the Group.

As at 31 December 2007, the Group had drawn down its credit facilities of US\$1,374 million (2006 : US\$1,186 million). Refer to note 26.

The table below analyses the Group's financial assets and liabilities which will be settled on a gross basis into relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

In millions of US\$	As at 31 December 2007			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years
Borrowings	(359)	(346)	(689)	(32)
Trade and other payables	(370)	–	–	–
Cash and cash equivalents	2,548	–	–	–
Loans receivable	28	4	3	–
Financial assets at fair value through the income statement	170	–	–	–
Trade and other receivables (excluding prepayments and advances)	880	–	–	–
<b>Net position</b>	<b>2,897</b>	<b>(342)</b>	<b>(686)</b>	<b>(32)</b>

In millions of US\$	As at 31 December 2006			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years
Borrowings	(610)	(17)	(429)	(432)
Trade and other payables	(393)	–	–	–
Cash and cash equivalents	336	–	–	–
Loans receivable	240	5	10	6
Financial assets at fair value through income statement	21	–	–	–
Trade and other receivables (excluding prepayments and advances)	529	–	–	–
<b>Net position</b>	<b>123</b>	<b>(12)</b>	<b>(419)</b>	<b>(426)</b>

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, translated at year end exchange rates.

In millions of US\$	As at 31 December 2007	
	Less than 1 year	Between 1 and 2 years
Forward foreign exchange contracts – cash flow hedge		
Outflow	(480)	(480)
Inflow	481	483

The Group had no forward foreign exchange contracts as of 31 December 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 35. RECONCILIATION OF NON-GAAP MEASURES

In millions of US\$	Note	Years ended 31 December	
		2007	2006
<b>Profit for the period</b>		<b>814</b>	<b>686</b>
<b>Add:</b>			
Depreciation and amortisation			
Cost of sales	7	271	241
Selling, general and administrative expenses	9	32	12
Finance costs	14	158	50
Income tax expense	15	507	285
<b>Less:</b>			
Finance income	13	(58)	(24)
<b>EBITDA after exceptional items</b>		<b>1,724</b>	<b>1,250</b>
Exceptional items	9	182	6
<b>EBITDA before exceptional items</b>		<b>1,906</b>	<b>1,256</b>
<b>EBITDA before exceptional items</b>		<b>1,906</b>	<b>1,256</b>
<b>Divide by:</b>			
Revenue	6	4,106	3,256
<b>EBITDA before exceptional items margin</b>		<b>46%</b>	<b>39%</b>
<b>Profit for the period</b>		<b>814</b>	<b>686</b>
<b>Add:</b>			
Finance costs	14	158	50
Income tax expense	15	507	285
Exceptional items	9	182	6
<b>Less:</b>			
Finance income	13	(58)	(24)
<b>EBIT before exceptional items</b>		<b>1,603</b>	<b>1,003</b>
<b>Divide by:</b>			
<b>Capital employed weighted average*</b>			
Borrowings		1,393	862
Equity including minority interest and excluding IPO proceeds		2,614	2,310
<b>Return on capital employed</b>		<b>40%</b>	<b>32%</b>

\* The capital employed used in this calculation is a three point average based on the opening and closing balance sheet for each year plus the half-year interim balance sheets.

Half-year interim balance sheets and the closing balance sheet for 2005 used in this calculation are as published in the Prospectus.

## 36. EVENTS AFTER THE BALANCE SHEET DATE

## Acquisition of the Serov Group

In July 2007, ENRC transferred US\$100 million to a subsidiary of International Mineral Resources BV (IMR), a company controlled by the Founder Shareholders, as a partial prepayment for ENRC's intended acquisition of the Serov Group ("Serov") and certain related entities. Serov's principal activity comprises the mining of chrome ore, processing and sale of ferroalloys in eastern Russia. ENRC completed its due diligence and shareholder approval of the transaction was granted prior to the Listing of ENRC on 12 December 2007.

On 3 April 2008, US\$110 million was paid to satisfy the balance of the consideration payable in respect of the Group's acquisition of a controlling interest in Serov.

## Fulfilment of obligation related to AoK

On 25 April 2003, ENRC signed an agreement with the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (the 'Committee') for the purchase of 31.8% of the issued share capital of Aluminium of Kazakhstan (AoK) and paid the full purchase price. The transfer of legal title to the shares was subject to the fulfilment of certain conditions, the primary one being the first stage of commissioning by 31 December 2007 of an aluminium smelter in Kazakhstan with a production capacity of at least 60,000 tonnes per annum. This milestone was achieved in December, with an opening ceremony on 12 December 2007 attended by the President of Kazakhstan, to mark the occasion. On 29 January 2008 a deed of fulfilment of obligations by ENRC and transfer of title of the shares in AoK to ENRC was duly exercised by the Committee.

## Long term incentive plan

The Company has adopted a long term incentive plan for Executive Directors, management and senior employees providing awards. The total number of share awards granted pursuant to this long term incentive plan, in conjunction with all other employee share plans operated by the Group, cannot exceed 10.0% of the issued share capital of the Company. The share awards will be subject to appropriate performance conditions, and all awards will be granted by the Remuneration Committee.

**37. PRINCIPAL SUBSIDIARIES**

A list of the principal subsidiaries consolidated during the period is set out below:

Subsidiary	Principal activity	Country of incorporation	% of ownership	
			Years ended 31 December 2007	2006
Aluminium of Kazakhstan JSC	Mining and processing of raw materials	Kazakhstan	96.61	96.61
Kazakhstan Aluminium Smelter JSC	Metals processing	Kazakhstan	100.00	100.00
TNC Kazchrome JSC	Mining	Kazakhstan	98.30	98.30
SSGPO JSC	Mining	Kazakhstan	98.15	98.15
Zhairemsky GOK JSC	Mining	Kazakhstan	99.84	99.84
Eurasian Energy Corporation JSC	Power generation	Kazakhstan	98.41	98.37
ENRC Leasing BV	Leasing	Netherlands	100.00	100.00
ENRC NV	Holding	Netherlands	100.00	100.00
Corica AG	Holding	Switzerland	100.00	100.00
Remput LLP (formerly Remput JSC)*	Transportation	Kazakhstan	–	100.00
Company Zhol zhondeushi LLP	Transportation	Kazakhstan	100.00	100.00
MEK Transsystema LLP	Transportation	Kazakhstan	100.00	100.00
Transcom LLP	Transportation	Kazakhstan	100.00	99.45
Transremwagon LLP	Transportation	Kazakhstan	100.00	100.00
RemPut Ltd. LLP	Transportation	Kazakhstan	100.00	100.00
Universal Service LLP	Transportation	Kazakhstan	100.00	100.00
RemSholService LLP	Transportation	Kazakhstan	100.00	100.00
Bereke 2004 LLP	Transportation	Kazakhstan	100.00	100.00
ENRC Logistics LLP (formerly Eurasia LLP)	Transportation	Kazakhstan	100.00	100.00
ENRC Marketing AG (formerly ENR Ferroalloys AG)	Sales and marketing	Switzerland	100.00	100.00
ENRC Marketing LLP (formerly Energo-Resources Ltd LLP)	Sales and marketing	Kazakhstan	100.00	100.00
ENRC Limited	Holding	United Kingdom	100.00	100.00
ENRC Management (UK) Ltd	Group Managing Company	United Kingdom	100.00	100.00

\* On 28 August 2006, Remput JSC became Remput LLP. In 2007, Remput LLP was merged to Company Zhol zhondeushi LLP. As a result of the merger, Remput LLP transferred all its rights and liabilities to Company Zhol zhondeushi LLP and ceased to exist as a legal entity.

## PARENT COMPANY INDEPENDENT AUDITORS' REPORT

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EURASIAN NATURAL RESOURCES CORPORATION PLC

We have audited the parent company financial statements of Eurasian Natural Resources Corporation PLC for the period ended 31 December 2007 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Eurasian Natural Resources Corporation PLC for the year ended 31 December 2007.

### Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive Officers' Statement, Our Leadership Team, the Business Review and the Corporate Governance Report that is cross-referenced from the Directors' Report.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises the Chairman's Statement, the Chief Executive Officers' Statement, the Business Review, the Directors' Report, the unaudited part of the Remuneration Report and all other information referred to on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

### PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors

London

29 April 2008

EURASIAN NATURAL RESOURCES CORPORATION PLC  
BALANCE SHEET  
AS AT 31 DECEMBER 2007

In millions of US\$	Note	As at 31 December 2007
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	3	1,200
<b>Current assets</b>		
Accrued interest		17
Amount owed by ENRC Limited	4	2,401
Cash at bank and in hand		1
<b>Total current assets</b>		<b>2,419</b>
<b>Creditors – amounts falling due within one year</b>		
Amounts owed to ENRC Management (UK) Ltd	4	(69)
<b>Net current assets</b>		<b>2,350</b>
<b>Total assets less current liabilities</b>		<b>3,550</b>
<b>Capital and reserves</b>		
Called up share capital	5	258
Share premium account	6	2,999
Profit and loss account	7	293
<b>Total capital employed</b>		<b>3,550</b>

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements.

The financial statements on pages 109 to 111 were approved by the Board of Directors on 25 April 2008 and were signed on its behalf by:



**DR JOHANNES SITTARD**  
Chief Executive Officer



**MIGUEL PERRY**  
Chief Financial Officer

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 8 DECEMBER 2006 TO 31 DECEMBER 2007

#### 1. PRINCIPAL ACCOUNTING POLICIES

##### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and generally accepted accounting principles in the United Kingdom ('UK GAAP').

The functional and presentation currency of the Company is US dollars. At 31 December 2007 the exchange rate was £1 = US\$1.996 and the average rate for the period was £1 = US\$2.004.

##### Investments

Investments in subsidiary undertakings are stated in the balance sheet at cost less provisions for impairment. Investments are tested for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

##### Foreign currencies

Transactions denominated in currencies other than US dollars, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in currencies other than US dollars are translated using the rate of exchange ruling at the balance sheet date. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

##### IPO costs

Costs related directly to the new issue of shares have been deducted from equity. Attributable IPO costs have been allocated between the share premium and income statement in proportion to the number of new shares issued compared to the existing number of shares. Other costs attributed to the listing have been expensed.

##### Taxation including deferred tax

Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax is recognised on an undiscounted basis.

##### Share-based bonus awards

The fair value of the services received under an equity-settled share-based bonus award scheme from the Directors, management, senior employees and professional advisers for their contribution to the Company's preparations for admission to the London Stock Exchange was measured by reference to the fair value of the shares granted less par value at the grant date and was recognised in the profit and loss account.

##### Dividends

Dividends payable are recognised as a liability and deducted from equity at the balance sheet date only if they have been approved before or on the balance sheet date. Dividends are disclosed when they have been proposed before the balance sheet date or when declared after the balance sheet date but before the financial statements are authorised for issue.

#### 2. TAX

##### Factors affecting future tax charges

There are no material factors affecting future tax charges.

In millions of US\$	Period ended 31 December 2007
<b>Tax reconciliation to UK statutory rate</b>	
Profit on ordinary activities before tax	793
Notional tax charge at the UK tax rate of 30%	238
Effects of:	
Items not deductible for tax purposes	13
Losses not recognised for deferred tax	49
Items not chargeable for tax purposes	(300)
<b>Total tax</b>	<b>–</b>

The Company has unrecognised deferred tax assets in respect of deductible temporary differences of US\$49 million for the year ended 31 December 2007 (2006: US\$nil). It is probable that future taxable profit will not be available to utilise the benefits of these temporary differences.

#### 3. INVESTMENTS

In millions of US\$	As at 31 December 2007
<b>Cost and net book value</b>	
At 8 December 2006	–
During the period the Company acquired 100% of the share capital of:	
ENRC Limited	1,200
ENRC Management (UK) Ltd	–
<b>Total investments</b>	<b>1,200</b>

### 3. INVESTMENTS CONTINUED

In December 2006 the Company acquired 100% of the share capital of ENRC NV (a Dutch company). Under sections 131 and 133 of the Companies Act 1985 the share premium on these shares was not recognised. The cost of the investment was recorded as the par value of 20,000,000 shares of US\$10 each and a promissory note of US\$1,000 million. In March 2007 the Company exchanged its shares in ENRC NV for 100% of the share capital of ENRC Limited and as such ceased to recognise its investment in ENRC NV and recognised an equivalent investment in ENRC Limited.

Both ENRC Limited and ENRC Management (UK) Ltd are incorporated in the UK.

### 4. RECEIVABLES AND PAYABLES TO GROUP COMPANIES

The amount owed by ENRC Limited bears interest at LIBOR plus 2.056%. It is repayable on demand.

The current account payable to ENRC Management (UK) Ltd arises from IPO costs paid on behalf of the Company and is repayable on demand.

### 5. SHARE CAPITAL

In millions of US\$	As at 31 December 2007
<b>Authorised:</b>	
2,000,000,000 ordinary shares of US\$0.20 each	400
<b>Issued and fully paid:</b>	
1,287,750,000 ordinary shares of US\$0.20 each	258

The Company was incorporated and registered in England and Wales on 8 December 2006 as a public limited company with a share capital of £50,000 divided into two ordinary shares of £1 each and 49,998 non-cumulative redeemable preference shares of £1 each. The share capital was one-quarter paid. On 19 December 2006, the Board resolved to effect the transfer of the two ordinary shares and 49,998 non-cumulative redeemable preference shares to The State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (the 'Committee'). On the same day the authorised share capital of the Company was increased from £50,000 to £50,000 and US\$200,000,000 by the creation and issuance of 20,000,000 new ordinary shares of US\$10 each as part of the acquisition of ENRC NV (refer to note 3). In addition, the 49,998 non-cumulative redeemable preference shares of £1 each held by the Committee, were re-designated as ordinary shares of £1 each, the resulting 50,000 ordinary shares of £1 each were consolidated into one ordinary share of £50,000 and then the ordinary share was re-designated as a special share.

#### Share split

At an Extraordinary General Meeting of the Company held on 8 November 2007, each of the issued, and each of the authorised but unissued, ordinary shares of US\$10.00 par value each in the capital of the Company was subdivided into 50 ordinary shares of US\$0.20 par value each. On the same day the authorised share capital of the Company was increased to 2,000,000,000 ordinary shares.

#### Issuance of shares on IPO

On 12 December 2007, the Company successfully completed its IPO and listed on the London Stock Exchange. A total number of 277,750,000 shares were issued at £5.40 with a par value of US\$0.20 each for total proceeds of about £1,500 million. Costs related to the issuance of new shares and attributable IPO costs taken against share premium amounted to US\$96 million.

A further 10,000,000 ordinary shares with a par value of US\$0.20 each were awarded to Directors, management, senior employees and professional advisers as part of the IPO bonus Plan on 12 December 2007. The fair value of the services received was measured at the fair value of the shares at the grant date of £5.40 per share less par value. The share awards are subject to a restriction period of one year from the date of the IPO during which any dealings are prohibited.

#### Redemption of special share

Pursuant to the Company's articles of association, the one special share of nominal value of £50,000 held by the Committee was cancelled upon admission of the Company's shares to the London Stock Exchange. As the share was only one-quarter paid up, £12,500 was paid to the Committee upon cancellation.

### 6. SHARE PREMIUM ACCOUNT

In millions of US\$	As at 31 December 2007
At 8 December 2006	–
Premium on shares issued on IPO	2,986
Premium on shares issued to Group management as IPO bonus	109
IPO costs charged to share premium account	(96)
At 31 December 2007	2,999

### 7. PROFIT AND LOSS ACCOUNT

The profit for the period from 8 December 2006 (date of incorporation) to 31 December 2007 amounted to US\$793 million. In December 2007 the Company paid a dividend of US\$500 million to the pre-IPO shareholders.

### 8. CONTINGENCIES AND COMMITMENTS

The Company has a commitment to make investments of US\$5 million annually in 2008 and 2009 and US\$20 million annually from 2010 until 2024 into Eurasian Energy Corporation JSC, its subsidiary, to finance the expansion of its production capacity, including that of its operating divisions, amounting to US\$310 million at 31 December 2007.