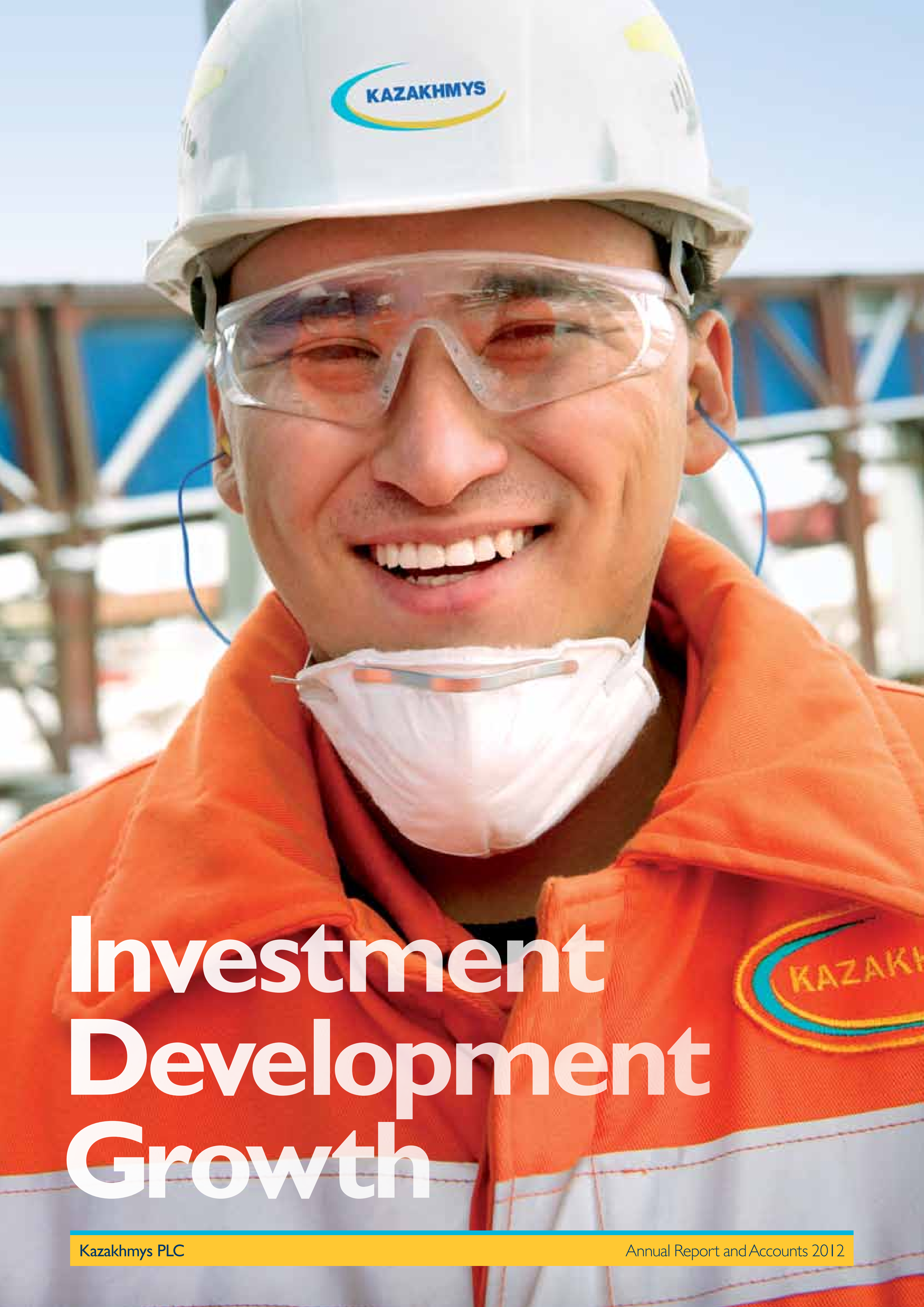


Investment Development Growth

Kazakhmys PLC

Annual Report and Accounts 2012

Kazakhmys is a leading natural resources group focused on the production of copper. Based primarily in Kazakhstan, we operate 16 mines along with our own concentrators, smelters and refineries. Kazakhmys is the only major fully integrated copper producer able to process all of its own ore into finished metal. We also operate four power stations, making us the largest provider of electricity in Kazakhstan.

We are growing our business with a $6 billion investment pipeline, including the largest mining development programme in Central Asia.

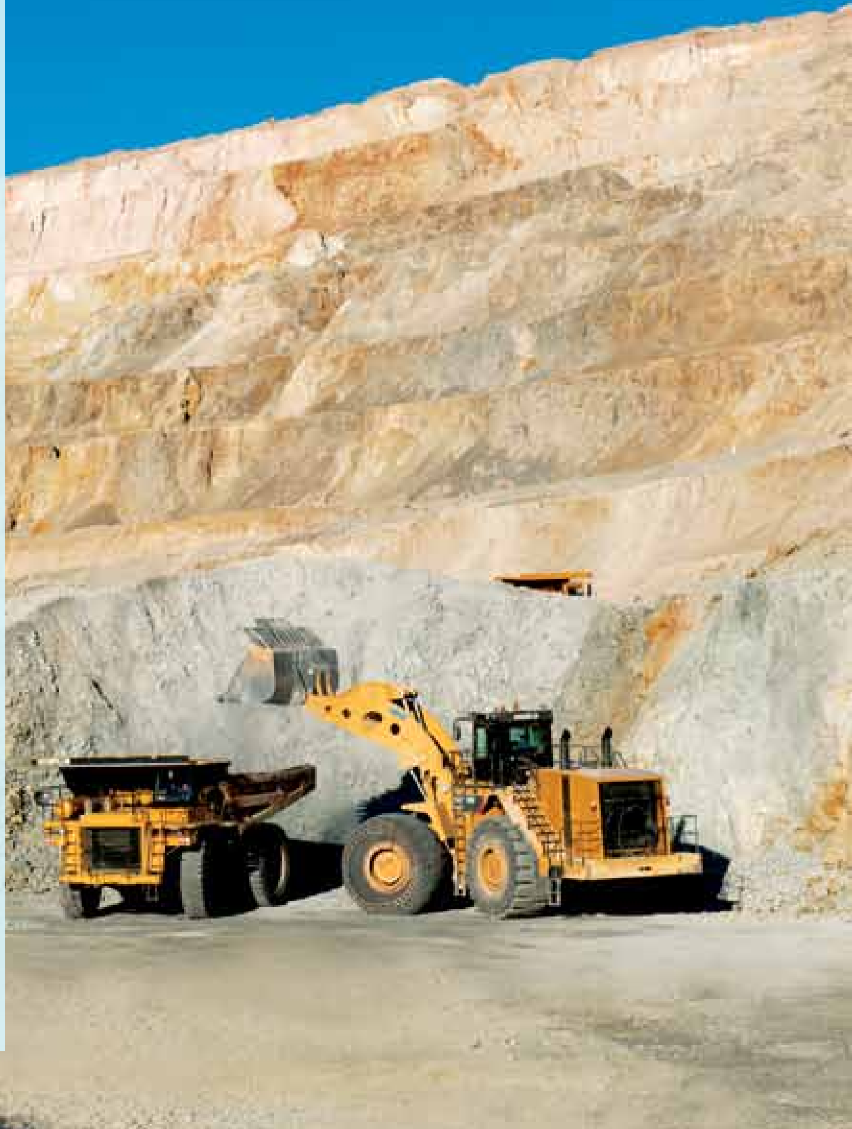
Highlights 2012

Financial

- Average LME copper price of $7,949 per tonne, a resilient performance in a weak economic climate
- Maintained a competitive cost position in a globally challenging inflationary environment
- Long-term debt facilities support major project investment programme

Operational

- Met production targets on all principal products with copper cathode output from own material of 292 kt
- Both major copper projects underway:
  – Construction started on-site at Bozshakol
  – Aktogay progressed to development stage
- Continued excellent progress with refurbishment at Ekibastuz GRES-1, including commissioning of a sixth turbine on time and on budget
- New Group-wide HSE education and training scheme launched, underpinned by external review
- $40 million spent on equipment to improve operating conditions and health and safety



Contents

Our Annual Report has been redesigned this year in accordance with the proposed new reporting regulations.

Strategic Report

A review of our strategy and summary financial, operational and corporate responsibility performance, and an explanation of our approach to corporate governance and remuneration.

Our Annual Report is available in print and online. Further information about Kazakhmys is also available on our website.

More information in this report

More information online visit: **www.kazakhmys.com**

Detailed Information

Detailed discussions of our governance framework, remuneration policy, corporate responsibility, and operating and financial performance.

Financial Statements

Financial statements and notes, including production and sales figures and mining reserves and resources.

Strategic Report

Detailed Information

Financial Statements

Focused on copper

Kazakhmys is the largest copper producer in Kazakhstan and one of the leading global copper producers. At 31 December 2012, we had a market capitalisation of $6,623 million.

Kazakhmys listed in London in October 2005 and our shares can be traded in London, Hong Kong and Kazakhstan. In addition to our mining activities, we have a 50% share of Ekibastuz GRES-1, the largest power station in Kazakhstan, which we run alongside three other power stations. We also have a 26% holding in ENRC, another London listed mining company. Our holding in ENRC had a market value of $1,546 million as at 31 December 2012 and contributed $548 million to Group EBITDA.

Kazakhmys is the only vertically integrated major copper producer in the world. Being integrated ensures security of supply for several key inputs and allows us to exercise control over every stage of the production process. Finished metal is a market priced commodity, easily transported and gives flexibility to our sales strategy. All of the ore we mine is converted to finished metal and 99% of the finished copper we produce comes from our own ore. In addition to copper, our ore contains other valuable metals, such as zinc, silver and gold, which are extracted and sold as by-products.

Coal

We own and operate two coal mines which supply our three captive power stations with coal. In 2012 just 3% of our coal output was sold to external customers and the rest used internally. The coal for the Ekibastuz GRES-1 power station is purchased separately from a nearby mine.

Volume of coal mined

7.3 MT

Power

Our three captive power stations principally supply heat and power to our Mining Division. In 2012 the captive power stations generated 5,562 GWh, of which 62% was used internally and the balance was sold to external customers. We also own 50% of Ekibastuz GRES-1, the largest power station in Kazakhstan, which produced 14,368 GWh in 2012. All of the power from Ekibastuz GRES-1 is sold externally. Ekibastuz GRES-1 is undergoing a $1 billion restoration programme which will return the plant to its nameplate capacity of 4,000 MW. Owning our own power stations helps us to manage the cost of a key input and ensure security of energy supply.

Net power generated

19,930 GWh

Mining

At the heart of our business are 16 mines, from which we produce our copper and by-products. The current mines are predominantly underground, and use a variety of mining methods. We run a variety of programmes to improve the efficiency of our mines and to offset the trend of rising costs which is suffered throughout the industry. These programmes are accompanied by spending and training on health and safety, to reduce the risk to our workforce in a hazardous working environment. In 2012, our mines produced 38 million tonnes of ore with an average copper grade of 0.95%. The delivery of our major growth projects from 2015 will transform our business, as production will increasingly come from new, low-cost, open pit mines.

Ore volumes extracted

38 MT

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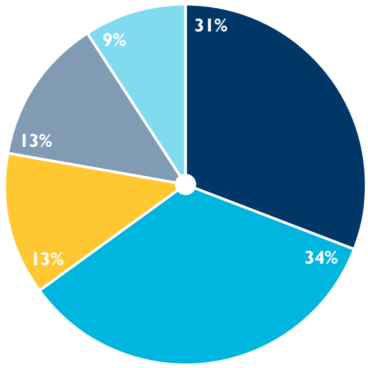
Supplying global demand

Copper is the principal metal used to conduct electricity and, along with electrical grids and circuits, copper is intensively used in a wide range of applications from cars to domestic appliances. Demand continues to increase with economic growth and global supply of copper is constrained by declining grades at existing mines and the limited availability of new mines.

Global copper consumption by market sector in 2012

- Construction
- Electrical and electronic products
- Industrial machinery
- Transport
- Consumer products



Source: Wood Mackenzie

Concentrators

After crushing and grinding, the ore from our mines is taken to one of our 10 concentrators, which are sited around our operations. The fine powder goes through several separation techniques becoming copper concentrate, a moist paste, which at Kazakhmys contains an average copper content of 21%. The concentrate is then sent to one of two smelting and refining plants.

Production of own concentrate

1.5 MT

Logistics

Behind the copper mining and processing is a substantial logistics business, able to handle and transport large quantities of material through the production process. This includes over 1,000 km of railway and nearly 2,000 wagons. The facilities link into the national railway network, allowing easy transportation to a variety of markets.

Own railway network

1,000 km

Refining

The two smelters heat the concentrate to make copper anodes, which are then refined to make finished copper cathodes, sheets of copper weighing up to 60 kg each. Refining capacity is higher than current production. The spare capacity will in future be utilised by the output from the major growth projects. Substantial funds are continually invested to reduce the environmental impact of the smelting and refining plants.

Refining capacity

410 kt

Fabrication

At our Zhezkazgan plant we are able to convert copper cathode into rod. The plant has a capacity of 50 kt per annum and material is produced to order for customers, principally in China and Kazakhstan.

Production of copper rod

24 kt

Positioned for growth

Kazakhmys is one of the largest global copper producers. Our location in Kazakhstan gives us several key advantages – access to the excellent natural resources of Kazakhstan, combined with reliable logistics, utilities, an experienced workforce and other vital inputs.

Our mining operations are divided into three regions, based in the centre and east of Kazakhstan. We employ around 60,000 people and our revenue represents around 2% of Kazakhstan's GDP. Kazakhstan is the ninth largest country in the world and has enjoyed significant development over the past 20 years, attracting substantial investment towards its oil and resource industries.

Kazakhstan is ideally located to serve the two largest copper markets in the world, China and Europe. Kazakhstan has direct rail links to China and material travels to Europe, by rail and the Black Sea. Each year around 80% of our production is contracted under annual off take agreements. In 2012, 75% of our contracted volume went to China and the balance to Europe.

China

41% of global copper demand

Europe

19% of global copper demand

Growth projects · Mid-sized projects · Mid-sized projects and operating mines

Trade routes · Copper and other metals · Coal mines · Power

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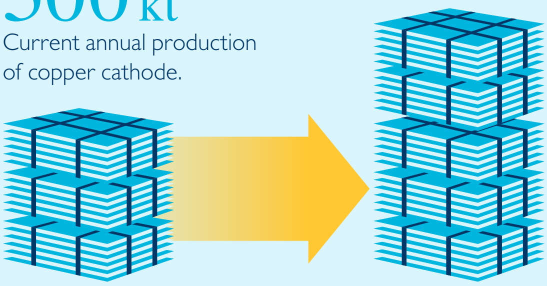
Our major growth projects

In 2012 we commenced development on-site at our Bozshakol project and we approved the development of Aktogay. These are both substantial, long-life, open pit mines, with a highly competitive operating cost. The projects benefit from easy access to utilities and can take advantage of our existing processing capability. The projects are backed by $4.2 billion of long-term finance.

300 kt
Current annual production of copper cathode.



500 kt
Future output of finished copper following development of our two growth projects.

Bozshakol project

Bozshakol, in northern Kazakhstan, is one of the largest undeveloped copper deposits in the world.

There has been good construction progress in 2012, with site preparation work and foundations nearing completion, and orders placed for all major mining and plant equipment.

The project has a capital cost in the region of $1.9 billion, and is being funded from a $2.7 billion financing facility provided by the China Development Bank and Samruk-Kazyna. Bozshakol will have a production life of over 40 years, with an average output of 75 kt of copper in concentrate per annum, although production will average 100 kt from 2015 to 2030. The ore also contains valuable gold by-product which will result in a highly competitive operating cost. Bozshakol will employ around 1,500 people with a similar number involved in the construction phase.

To follow progress at the Bozshakol project visit:
www.kazakhmys.com/en/operations/bozshakol

Resources

1,173 MT of 0.35% copper grade

Contained gold

5,255 koz

Aktogay project

Aktogay is a large open-cast mine in south eastern Kazakhstan, approximately 250 km from the Kazakhstan-China border. The ore body has significant similarities to Bozshakol, allowing us to accelerate design and engineering work to maximise value.

The Aktogay ore body consists of an oxide deposit on top of a larger sulphide deposit, the latter containing some valuable molybdenum which will be extracted as a by-product.

The project has a capital cost of $2 billion, and is primarily being funded from a $1.5 billion financing facility from the China Development Bank. Aktogay will employ around 3,000 people at peak construction activity, and around 1,500 people when operational.

Construction will start in 2013 and production will start in 2016. Production in the first 10 years will average 104 kt of copper in concentrate per annum.

To follow progress at the Aktogay project visit:
www.kazakhmys.com/en/operations/aktogay

Resources

1,719 MT of 0.33% copper grade

Contained molybdenum

115 kt

Investing for growth

In May 2012, I announced my intention to step down as Chairman of Kazakhmys by the time of our 2013 Annual General Meeting. After eight years as Chairman and with the major growth projects now firmly in progress, I believe this is the right time to hand over to a new Chairman. I will of course maintain my involvement with Kazakhmys, as executive chairman of Kazakhmys Corporation LLC, and as a major shareholder and a non-executive Director of Kazakhmys PLC.

In 2005, we became the first company from Kazakhstan to obtain a primary listing on the London Stock Exchange. Since Listing we have aimed to balance the needs of different stakeholders, acknowledging our obligations to shareholders, employees, and the wider community in Kazakhstan, where our resources are based. Our Listing has allowed us to compare ourselves to the best peer group of international mining companies and has helped drive higher expectations of ourselves.

The successful raising of finance, both through our Listing and the subsequent debt facilities, has enabled us to bring our growth projects to reality. In 2012 we announced the approval of Aktogay, and together with the development of Bozshakol we are now moving towards a new Kazakhmys, which will be dominated by large scale, open pit mines, producing higher volumes of copper at a relatively low operating cost. This growth will transform the Group, taking copper cathode output from around 300 kt to over 500 kt, and will ensure a globally competitive future for copper mining in Kazakhstan. A key focus for the Board is to ensure the successful delivery of these major projects and the subsequent generation of future projects.

Our first obligation is to ensure the personal welfare of our workforce. The approach to health and safety has changed markedly over the last eight years, but clearly has some distance to go until we reach our core target of zero fatalities. In 2012 there were 19 fatalities, compared to 24 in 2011 and 33 in 2005. Safety is a key indicator of operational performance and operational management have to make safety their first priority. All fatalities are both unacceptable and avoidable and the Board will continue to demand continuous and significant improvement in health and safety.

The economic backdrop remained uncertain throughout 2012, but there is some basis for optimism. Europe continues to be held back by structural problems, but there has been improvement in the US, as it moves on from the trough of the financial crisis and benefits from low energy prices. Growth in China moderated during 2012, although it has shown some tangible signs of acceleration since the start of 2013.

Copper traded relatively well given the economic backdrop. The average LME price in 2012 was $7,949 per tonne, a 10% decline on the previous year, but this was the best performance of any base metal and, amongst all major metals, second only to gold. Copper is supported by restricted supply and continuous demand from a wide range of applications and it remains our favoured metal.

Costs have continued to rise with pressure from a variety of sources including lower grade as our existing mines mature. The combination of lower copper prices and rising costs squeezed profitability and improving efficiency is a key strategic focus for the Board.

We continue to hold 26% of ENRC, which had a market value of $1,546 million at the end of 2012, compared to $3,289 million at the end of 2011. ENRC suffered from pricing weaknesses for its key commodities and an increase in debt with the acquisition of new assets. In light of the significant difference for over a year between our carrying value of the ENRC investment and its market value, it has been necessary to write down the investment to a value approaching recent market valuations. The holding continues to offer strategic opportunities and provides diversification of earnings through ENRC's exposure to bulk materials. The Board's objective is to maximise the value of this investment for all shareholders.

The major asset in our power division is our 50% holding in Ekibastuz GRES-1, which again performed well, benefiting from continued investment in the power station and rising demand for power in Kazakhstan. We have announced that we are in discussions regarding our holding in Ekibastuz GRES-1. It is an excellent business and we remain committed to having captive power for our operations, but the Board believes that the value of this asset, which is the largest power station in Kazakhstan, is inadequately reflected in our share price.

I am delighted that Simon Heale has agreed to take on the role of Chairman. Simon joined the Board in 2007 and has served as Chairman of the Audit Committee for five years. His knowledge of the Group will assist him greatly in his new role and I will

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support Simon as required. Michael Lynch-Bell will be standing for election as a new non-executive Director at the Annual General Meeting and will become Chairman of the Audit Committee. Michael has extensive experience in the sector.

Since Listing, our non-executive Directors have provided continuous support and advice and I should like to thank the Board for their assistance during my time as Chairman. Each of our Directors has skills relevant to our business, which combined with their personal commitment has led to invaluable input. The non-executive Directors make regular visits to our operations and interact with operational management, which has helped maximise benefit for all concerned.

The Directors recommend the payment of a final dividend of 8.0 US cents per share or $42 million. This payment, together with the interim dividend of 3.0 US cents per share, represents 11.0 US cents per share, or $58 million for the year as a whole. In the first few months of 2012 we repurchased 6.1 million of shares, at a cost of $88 million, which completed the share buy-back programme, amounting to $166 million, announced in September 2011. As I mentioned last year, it was likely that the Board would seek to moderate our payout level as we are entering a period of high capital expenditure, which is in keeping with our flexible dividend policy. The lower dividend also reflects the lower level of earnings. Once the first of our major projects is commissioned in 2015, the Board anticipates increasing our payout level, subject to market conditions.

It should be noted that after this final dividend we will have returned a total of $1,776 million to shareholders, compared to $491 million raised at the time of Listing. Our cash returns compared to our market capitalisation are amongst the highest in the sector.

Over the past three years, with the support of the China Development Bank, we have raised $4.2 billion in debt for our major growth projects. In 2012 we replaced our other existing corporate debt facility with a $1 billion pre-export facility from a consortium of banks. Our debt is generally long-dated, but the Board is mindful of ensuring that the Group's financial strength is maintained.

Copper remains an attractive metal, with a favourable demand and supply balance. With both of our major growth projects now funded and in development we have a clear route to transform our business over the next few years. The Board will remain focused on the delivery of these projects, improving the efficiency of our existing assets and ensuring the personal welfare of our employees.

Vladimir Kim
Chairman

Meet our new Chairman

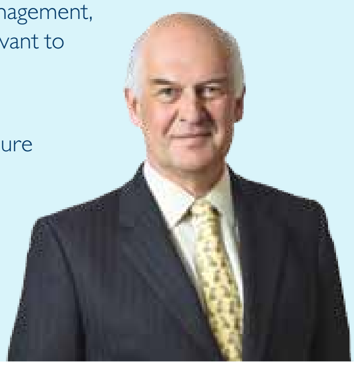
Simon Heale joined the Board of Kazakhmys in January 2007, becoming Chairman of the Audit Committee in December 2008.

Q: First thoughts on becoming Chairman of Kazakhmys?
A: I am delighted to become Chairman. We are entering a dynamic period as the growth projects turn from plan to reality.

Q: What will be your strategic focus?
A: Supporting management in their delivery of the growth projects and in managing costs at the existing operations, as they transform Kazakhmys to a company dominated by a smaller number of large, low cost mines. I am committed to improving our safety record and I am pleased to be joining the Group HSE Committee.

Q: How do you bridge the gap from London to Kazakhstan?
A: I have visited the operations often and I am conscious of the significant position the Group holds in Kazakhstan as an employer and economic contributor. I will maintain good contact with operational management, to ensure the working of the Board remains relevant to the operations and its employees.

Kazakhmys has worked hard to combine the opportunities of new economies with the disclosure and regulation of the London market. I want to ensure that transparency and good governance remain central to our behaviour.



To read Simon's biography see page
20 Board of Directors

Key achievements since Listing

Listing in London
In 2005 Kazakhmys became the first company from Kazakhstan to list on the London Stock Exchange.

Secured $4.2 billion loan facilities
In 2010 and 2011 we completed arrangements for long-term funding of $4.2 billion towards the development of our growth projects.

Progressing our major growth projects
The securing of the long-term debt has enabled the Group to commit to the delivery of the major growth projects, which will transform the output and cost base of our operations.

Delivering
against our targets

For the fifth consecutive year we have met our annual production targets. The major challenge during 2012 came from rising costs at our current operations and improving operational efficiency in order to reduce costs remains a key focus for management. In 2012, we made significant progress on our major growth projects, which are central to the development and transformation of Kazakhmys.

In 2012, we produced 292 kt of copper cathode from own material, a reduction of 2% on the previous year. As anticipated, our output was derived from a 12% increase in mined ore, which had an average copper grade of 0.95% compared to 1.01% in the previous year. The reduction in grade was largely due to the recommissioning of Konyrat, a relatively low-grade open pit mine. The processing of additional material along with inflation in salaries and higher transportation costs led to a sharp increase in operating costs. There was some rebuild of inventory during 2012, so that sales declined by 4% to 282 kt.

The average LME price of copper over the year was $7,949 per tonne, 10% below 2011. The performance of copper was considerably better than most non-precious metals, and is testament to its strong demand and supply fundamentals, even in weak economic conditions. The decline in the copper price, lower copper sales volumes and a rise in costs led to a 36% fall in EBITDA (excluding special items) at our Mining Division to $1,160 million.

In 2013, we anticipate that output of finished copper will be similar to 2012. Copper grades are likely to decline modestly, in line with our medium-term mine plan, but will be offset by higher ore volumes. By-product output will be marginally lower across all metals. The rate of inflation has moderated, although there are still cost pressures in the industry. We will continue with our optimisation projects to raise recovery rates at our processing plants, improve the throughput and handling of materials and obtain greater labour efficiency. We believe that there is much more to be done in all of these areas, with the strategic aim of ensuring adequate cash generation for the maintenance and extension of our existing asset base.

Meeting our production targets has been to the credit of all my colleagues, and I should like to thank them for their combined efforts. We have seen further improvement in our management of health and safety issues, however, it is clear that we still have considerable work to do in promoting and ensuring the safety of our workforce.

The Power Division is dominated by Ekibastuz GRES-1, the largest power station in Kazakhstan, in which Kazakhmys has a 50% share. The Division has continued to perform well, assisted by the commissioning of a further unit at Ekibastuz GRES-1 during December 2012. Total power generated at Ekibastuz GRES-1 increased by 13% to 14,368 GWh, which along with a 12% rise in the average realised tariff led to an 18% increase in the Power Division's EBITDA (excluding special items) to $189 million.

When Kazakhmys first purchased a stake in Ekibastuz GRES-1 in 2008, we set out plans for a $1 billion refurbishment programme, self-funded from the plant's operating cash flows. $483 million has been invested to date, including $38 million on environmental improvements. Two of the original eight 500 MW turbines are still to be refurbished, which will then restore Ekibastuz GRES-1 to its nameplate capacity of 4,000 MW. The refurbishment programme remains on schedule and is due to be completed in 2016. In 2013 we will be continuing work on the rehabilitation of the seventh turbine, which will be commissioned in 2014.

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The market value of our holding in ENRC was worth $1,546 million at the end of 2012, compared to $3,289 million at the end of 2011. The holding was purchased at an average price of 575 pence per share, below the previous carrying value of 786 pence per share. We have reviewed the carrying value of the holding and on a value-in-use basis, required by accounting standards, and have revised the carrying value to $2,027 million, or 375 pence per share, representing an impairment of $2,223 million. EBITDA (excluding special items) at ENRC declined by 43% to $548 million, impacted by lower commodity prices.

The combination of earnings from our managed businesses and ENRC led to Group EBITDA of $1,912 million, compared to $2,925 million in 2011. EPS, based on Underlying Profit, was 94 US cents per share, benefitting from lower tax payments, but impacted by a charge for future disability payments, following an actuarial recalculation of the Group's disability benefits provision.

In 2012 we made excellent progress on our growth projects. Bozshakol moved into development and a significant part of the site preparation and infrastructure foundations was completed during the year. In 2013, we look forward to the delivery and installation of the major processing equipment. Hiring and training the operational staff is now well underway and will be critical for successful commissioning in 2014. Bozshakol remains on track for first production in 2015 and in line with the budget of $1,900 million.

The Aktogay feasibility study was approved in December 2012 and initial development work will start in early 2013 with first production from the main ore body in 2016. Bozymchak, the gold and copper project in Kyrgyzstan, has been affected by the availability of materials and skilled labour during its early development, but good progress is now being made and first output will be produced in 2013.

We continue to work on several mid-sized copper projects, largely based around our existing operations. These projects include Akbastau and Kosmurun, Zhomart and South East Nurkazgan. The projects have considerable potential, but the speed of progress will partly be influenced by the availability of funding, while we deliver our major growth projects.

In 2012 we spent $624 million on sustaining capital expenditure in the Mining Division, significantly higher than 2011, including around $180 million on projects relating to new mine developments and concentrator upgrades. In 2013, we anticipate that sustaining capital expenditure will reduce to between $450 million and $550 million, including around $150 million on new mine developments and concentrator upgrades.

The major growth projects are backed by $4.2 billion of long-term funding, lent by the China Development Bank. The nature of the funding gives a high level of certainty to our delivery of the projects. Gearing will increase as the spending on the projects rises, but the long dated maturity of the debt reduces strain on our cash flows and allows prudent management of our balance sheet.

In 2012 65% of our copper sales were to China. Most of our customers have been with us for many years, and I thank them for their continued support.

Our Chief Financial Officer, Matthew Hird, has decided that he wishes to step down in May 2013, but will remain with Kazakhmys until the end of the year to ensure a smooth transition. I should like to thank him for his exceptional input over the past eight years. Matthew joined Kazakhmys before Listing and he led the creation of a strong finance function which enabled us to put in place the debt facilities necessary to deliver our growth projects and to meet high standards of reporting. Andrew Southam, the current Deputy Chief Financial Officer, will become Chief Financial Officer from May 2013.

The outlook for copper remains the most attractive of any industrial metal. By managing our existing assets efficiently and delivering our growth projects we believe that we can transform Kazakhmys over the medium term, so that by 2018 around 80% of our ore output will be from open pit mines, dominated by five large and low-cost operations and taking us to production of over 500 kt per annum. I look forward to reporting on our progress in 2013 as we continue to invest in and grow our business.

Oleg Novachuk
Chief Executive

Delivering against our targets

Copper production
In 2012 we produced 292 kt of copper cathode from our own ore. This was in line with the annual target of between 285 kt and 295 kt. The volume of mined ore increased, which put pressure on costs. In 2013 we anticipate producing a similar amount of finished copper to 2012.

By-product output
The production of our principal by-products, zinc, silver and gold, was above our annual targets at 152 kt, 12.6 Moz and 129 koz, respectively. By-product output is likely to reduce slightly in 2013.

Power
The Power Division benefited from increased demand for power and the commissioning of a sixth turbine at Ekibastuz GRES-1, in which we have a 50% stake. Output at Ekibastuz GRES-1 increased by 13% to 14,368 GWh. The refurbishment of the last two turbines is continuing.

Costs
Our net production cost for copper, of 174 USc per pound, finished within our target range of 150 to 180 USc per pound. Net costs benefited from by-product volumes and prices, though the overall cost base saw significant inflation from salaries, transportation costs and higher ore volumes. Management are focused on carrying through a variety of programmes to contain cost pressures and raise efficiency.

Health and safety
Improving our health and safety performance is our main operational priority with a core objective of zero fatalities. This requires a significant change in behaviours and working practices, assisted by continued investment. We have seen some improvement, but with 19 fatalities in 2012, there is clearly much to do.

Continuing to deliver results

$ million (unless otherwise stated)	2012	2011
Revenues	**3,353**	3,563
Segmental EBITDA (excluding special items)	**1,364**	1,959
Group EBITDA (excluding special items)	**1,912**	2,925
EPS based on Underlying Profit ($)	**0.94**	2.80
Net cash cost excluding purchased concentrate (USc/lb)	**174**	114
Free Cash Flow	**85**	824
Net (debt)/funds	**(707)**	19

In 2012, the copper market moved to a small supply surplus as the slowdown of economic growth rates in China, the United States and particularly in Europe, led to the increase in supply outstripping demand. This factor, together with weaker investor sentiment in general during 2012, resulted in the average LME copper price being 10% lower than in the prior year. Copper sales volumes were 4% lower than in 2011 with not all production recognised as sales in the year. The combination of lower pricing and sales volumes led to copper revenues declining by 11%. In March 2012, gold sales resumed following the lifting of the temporary export restriction on precious metals sales which prevented gold sales in the second half of 2011. 69 koz of gold produced in 2011 was sold in March 2012 to Kazakhstan's National Bank. Gold sales have continued monthly thereafter.

Segmental EBITDA was 30% below the prior year as revenues fell by 6% and a combination of salary inflation, higher transportation costs and greater volumes of material processed resulted in cash operating costs rising by 26% at the Mining Division. Demand for skilled and mobile labour in Kazakhstan remained strong throughout 2012, driven by the oil sector in particular, along with pressure on wage rates to remain competitive within the wider natural resource sector in the CIS.

The gross cash cost of copper rose to 333 US cents per pound in 2012, up from 249 US cents per pound in 2011 reflecting the increase in ore extraction volumes, along with higher operating costs and lower copper cathode sales volumes. The net cash cost increased to 174 US cents per pound as the impact of higher gross cash costs on reduced copper sales volumes was only partially offset by improved by-product credits in 2012.

Included within Group EBITDA, the Group's share of EBITDA arising from its 26% holding in ENRC fell by $418 million. In 2012, ENRC experienced sharp declines in pricing for its major products, iron ore and ferrochrome.

In accordance with legislation, the Group has a disability benefits obligation to current and former employees. The salaries rises awarded in 2012 led to an increase in the disability benefits obligation and the recognition of a charge of $207 million. The increase in the provision reflects an enhanced level of disability payments in future years.

During the year, the Group recognised impairments against its investment in ENRC and the Bozymchak project of $2,223 million and $162 million respectively. The market value of ENRC declined in 2012 and at the year end, the market value of the Group's shareholding in ENRC was significantly below its carrying value. Both of these impairments have been treated as special items and excluded from Underlying Profit.

EPS based on Underlying Profit was $0.94 per share, impacted by the reduction in EBITDA and the increased disability provision. In addition, in 2012 the Group's all-in effective tax rate, which includes the impact of MET but excludes special items, increased from 38.0% to 68.6%, as the relative impact of MET was more pronounced on the lower profits of the Group. The Group's overall tax charge was below the prior year due to lower profits and a $60 million refund of EPT received in 2012 following a favourable court ruling.

Free Cash Flow available to the Group was $85 million as reduced profits, higher sustaining capital expenditure and interest payments were only partially offset by a reduction in MET and income tax payments.

Capital expenditure on the major projects increased in the year as Bozshakol was under construction and long lead items were ordered for Aktogay. The Group has secured a total of $4.2 billion in two long-dated facilities from the CDB. Of the $4.2 billion, under the first $2.7 billion facility, $2.5 billion was drawn by the year end, and the second facility of $1.5 billion was undrawn.

During 2012, the pre-export finance facility signed in 2008 was repaid in full and a new five year facility was arranged of $1.0 billion which shall be used for general corporate purposes and to provide liquidity during the development of the two major projects. The liquid funds available to the Group amounted to $1.8 billion compared to $1.9 billion at 31 December 2011, and are mainly held in the UK.

The Group made returns to shareholders of $209 million in 2012, through a combination of dividends and buy-backs. With increased development capital expenditure on the major projects, the Group's net debt at 31 December 2012 was $707 million compared to a net funds position of $19 million at 31 December 2011. As with 2011, for the 2012 financial year the Group maintains a 12% dividend payout ratio based on underlying post-tax cash earnings.

Kazakhmys enters 2013 with a strong balance sheet and committed debt facilities. The Group is well positioned to finance the delivery of its growth projects.

For more information see pages
12 Our Strategy
28 Operating Review
78 Financial Review

Our operations

Mining

Copper cathode output was 292 kt in 2012. Whilst the headline output was slightly below the prior year due to movements in inventory, copper in mined ore grew by 6%. The Mining Division raised ore output by 12% through the re-commencement of Konyrat mine in June 2012 which contributed almost 3 MT of ore in 2012 and a full year's output from the Akbastau mine. The increase in ore volumes in the Mining Division more than offset a decline in copper grade from 1.01% to 0.95%, due to the lower grade in the Central Region, in particular, incremental production from the low grade Konyrat mine, and as the grade at the Orlovsky mine reduced to 3.04%, down from 3.66% in 2011.

Copper in concentrate was marginally higher than in the prior year as not all the ore extracted was processed.

By-products, which are an important part of our business model, saw zinc in concentrate output rise to 152 kt, an increase of 9%. In respect of precious metals, both silver and gold saw increases in the metal in ore extracted, by 6% and 15% respectively. Output of finished materials was impacted by changes in work in progress and production of precious metals was slightly below the prior year, despite the increase in metal in ore extracted.

During the year there were two projects underway to upgrade concentrators. At the Balkhash concentrator in the Central Region, the ore processing capacity is currently being raised to enable the Konyrat mine to ramp up output to 7 MT per annum. A major reconstruction of the Nikolayevsky concentrator is ongoing which by the end of 2012 was already demonstrating improved copper recovery rates. In 2013, the recovery rates of gold, silver and zinc are expected to rise and ore has been stockpiled for processing once this completes.

Outlook

In 2013, ore output volumes will rise due to a full year's output from the Konyrat mine and as the mine ramps up extraction. The additional volume of low-grade ore from Konyrat will lower the average copper grade in 2013, as will slowly declining grades at the mature mines. Overall cathode output is expected to be between 285 kt and 295 kt in 2013.

In 2013, Kazakhmys Mining will continue a number of mine development opportunities and concentrator upgrades to optimise the existing operations and will also progress the development of its major projects, Aktogay and Bozshakol.

Ore production

37.5 MT

Copper grade

0.95%

Power

Net power generated in 2012 by Ekibastuz GRES-1 was 13% above the prior year driven by strong demand in Kazakhstan. Ekibastuz GRES-1 was producing at full capacity for periods of the year. In the second half of 2012, generation volumes were supported by the ongoing commissioning of Unit 8 following its rehabilitation, adding 500 MW of capacity to the power station.

Net power generated at the captive power stations during 2012 was in line with the prior year. In 2011, output was impacted by unscheduled outages at three turbines, and in the current year, extensive maintenance work was conducted on the Karaganda power station.

Outlook

In 2013, Ekibastuz GRES-1 generation volumes are expected to increase by between 5% and 10% with a full year of production from Unit 8 and with rising demand for electricity in the region. The captive power stations' generation volumes are expected to be at a similar level in 2013 to 2012 as they currently operate at close to their maximum capacity.

As the outlook for power in Kazakhstan remains positive, Ekibastuz GRES-1 will proceed in 2013 with the project to rehabilitate Unit 1 which is currently dormant. The rehabilitation of Unit 2 remains on track to complete by 2014. Once the rehabilitation project is completed in 2016, the station will be restored to its nameplate capacity of 4,000 MW.

Net power generation

19,930 GWh

Net dependable capacity

3,141 MW

Strategy and progress

Our strategy is reviewed by the Board each year to ensure that it remains relevant to the Group's requirements. The risk management framework and key performance indicators are intended to assist and complement the strategy and are also kept under regular review. Our overall aim is to develop Kazakhmys into the leading natural resources company in Central Asia, for the benefit of all stakeholders.

Our vision

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

Our objective

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

Relevant KPIs

- Free Cash Flow
- Earnings per share based on Underlying Profit
- Group EBITDA (excluding special items)

Our strategic priorities

Deliver growth projects

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

Relevant KPIs

- Project status

Relevant risks

- Health and safety
- New projects
- Labour, mining equipment and supplies
- Liquidity

To view our major projects case studies visit:
www.kazakhmys.com/en/operations/growth_projects

Optimise existing assets

Rising costs create significant problems for our business. We are developing management tools to improve the performance of our existing assets and create opportunities to raise efficiency in our operations. This includes procurement of equipment, improved maintenance and better planning.

Relevant KPIs

- Ore output
- Cash costs of copper after by-product credits
- Copper cathode equivalent production from own material
- Maintenance spend per tonne of copper cathode

Relevant risks

- Health and safety
- Labour, mining equipment and supplies
- Assets controlled by third party and joint ventures
- Reserves and resources

Take advantage of natural resource opportunities

We will actively seek out and acquire attractive, undeveloped natural resource assets principally in the Central Asian region.

Relevant risks

- Acquisition and divestments

Progress

- Bozshakol moved into full development and remains on time and on budget for first production in 2015
- The feasibility study for Aktogay was approved in 2012 and the project has now moved into development in early 2013
- Bozymchak project entered final stages of development
- Continued study work on nine potential future projects

2013 Priorities

- Delivery and installation of major milling equipment at Bozshakol. Recruit and train operational workforce
- On-site development of Aktogay with ordering and delivery of construction equipment and commencement of earthworks
- Complete and commission Bozymchak
- Progress mid-size project studies to deliver greatest shareholder value

Progress

- Some improvements seen in recovery rates at concentrators
- Recommissioning of Konyrat mine
- Reorganisation of some mines and working areas in Zhezkazgan to reduce costs
- Completed digitisation of mine data

2013 Priorities

- Continue work on recovery rates at concentrators, particularly at Balkhash and Nikolayevsky
- Complete ramp up of Konyrat mine
- Complete work on mine planning following digitisation of mine data

Progress

- Completed 285,000 metres of drilling in 2012

2013 Priorities

- Continue to assess opportunities for development with focus on copper assets in Central Asia

Supporting our strategy

Corporate Responsibility

Behind our strategy is a balanced recognition of all key stakeholders. Our business should benefit our shareholders and enhance the social and economic development of the communities where we operate. Kazakhmys employs over 60,000 workers and runs the largest private company social programme in Kazakhstan, reflecting the close and historic links with the communities serving our operations.

For more information see pages
18 Summary Corporate Responsibility
48 Corporate Responsibility

Risk Management

The Group has a structured approach to managing risk. Those significant risks that could materially affect the Group's financial condition, performance, strategy and prospects are set out within this report along with a discussion of our approach to risk.

For more information see pages
16 Summary Risk Management
42 Principal Risks

Key Performance Indicators

The Board has established a range of eight Key Performance Indicators which have been chosen for their relevance to our Group strategy and key risks. A further six key performance indicators have been chosen for corporate responsibility.

For more information see pages
14 Key Performance Indicators
18 Summary Corporate Responsibility

Measuring our progress

The Group monitors performance against a set of Key Performance Indicators with the aim of delivering its strategic objectives, as set out on pages 12 and 13.

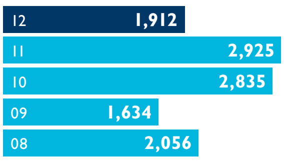
The eight KPIs used to monitor the Group's performance have been selected as those most aligned to the Group's strategy and objectives. A clear link exists between performance against the Group's strategy and objectives and the remuneration of the Executive Directors, as the annual bonus

Objectives:

Deliver value for our shareholders

Group EBITDA (excluding special items)
($ million)

1,912



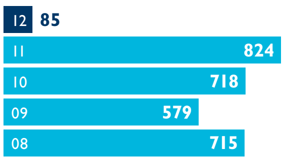
Relevance
This is a measure of the underlying profitability of the Group, widely used in the mining sector.

How we measure
EBITDA is earnings before interest, taxation, the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, and mineral extraction tax as adjusted for special items and including the share of EBITDA of the joint venture and the associate. From 2012, EBITDA (excluding special items) has been redefined to exclude the non-cash component of the Group's disability benefits obligation. Please refer to the 'Basis of preparation' section of the Financial Review on page 78.

2012 Performance
Group EBITDA decreased by 35% to $1,912 million, as revenues declined as a result of lower sales volumes and a fall in realised prices. Costs were driven up by higher ore output, salary increases awarded to employees and rising transportation costs. The Power Division reported EBITDA 18% higher than the prior year, supported by strong demand for electricity within Kazakhstan and tariff increases. The contribution from the Group's associate, ENRC, fell by 43% to $548 million, also driven by falling commodity prices.

Free Cash Flow
($ million)

85



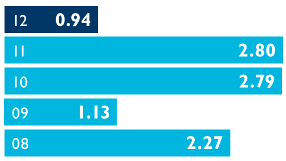
Relevance
Monitors Group cash flows used to fund returns to shareholders and invest in the future growth and development of the business. It is an indicator of the ability to grow the business through reinvestment, reduce debt or to make returns to shareholders.

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

2012 Performance
Free Cash Flow decreased by $739 million to $85 million, primarily due to the lower profitability of the Group and a $242 million rise in the level of sustaining capital expenditure. The sale of gold inventory which had accumulated in the prior year benefited Free Cash Flow in 2012, but this was offset by higher levels of raw materials and copper finished goods which built up during the year. The Free Cash Flow movement was also negatively impacted by the timing of VAT refunds from the Government of Kazakhstan and lower dividends received from ENRC.

Earnings per share based on Underlying Profit ($)

0.94



Relevance
Shows how much net profit we have generated and measures the return to our equity shareholders. EPS based on Underlying Profit can be used as an indication of profits available to shareholders for distribution or retention in the business.

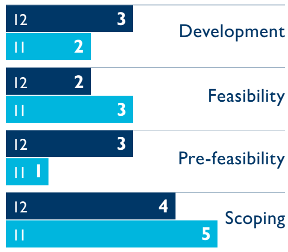
How we measure
Profit before special items and other non-recurring or variable non-trading items, and their resulting taxation and minority interest impact, divided by the weighted average number of ordinary shares in issue during the year.

2012 Performance
The decrease in EPS based on Underlying Profit was driven by the reduced profits of Kazakhmys Mining, with lower copper cathode sales volumes, a fall in the average realised copper price and increasing cost pressures. Within the 2012 results of the Mining Division was a $190 million charge for the actuarial remeasurement of the Group's disability benefits obligation. Whilst the tax charge fell in 2012, as MET is closely aligned to revenues rather than profit, the all-in effective tax rate rose sharply. The share of profits from ENRC, excluding special items, decreased by 73% with lower commodity prices.

Strategic priorities:

Deliver growth projects

Project status



Relevance
A key aim of the Group's strategy is to deliver our growth projects and take advantage of opportunities in natural resources. Project status indicates the number of growth projects active within the Group and their stage of development.

How we measure
The number of major or mid-sized projects in the key stages of scoping, pre-feasibility, feasibility and development.

2012 Performance
The Bozymchak and Bozshakol projects remain under development, with first production expected in 2013 and 2015, respectively. The Aktogay project was approved for development in 2012 following the completion of the feasibility study. Feasibility studies are progressing for the Akbastau and Kosmurun projects. Anissimov Klyuch remains at the pre-feasibility stage, whilst the Zhomart and the Artemyevsky mine extensions have commenced their pre-feasibility studies in 2012. A further four projects are currently at the scoping stage.

For more information see pages
28 Operating Review
48 Corporate Responsibility
78 Financial Review

plan performance targets are aligned to the Group's KPIs and strategic priorities. The KPIs are regularly reviewed to ensure they remain relevant and will continue to be monitored in the future.

KPIs specific to corporate responsibility are reported in the Corporate Responsibility section of this report.

Strategic priorities:

Optimise existing assets

Ore output (kt)

37,507

12	37,507
11	33,432
10	32,935
09	32,409
08	35,675

Relevance
Ore output indicates our ability to maximise output from existing assets and growth projects. This KPI should be considered alongside other measurements including final copper production costs and maintenance spend, to ensure extraction is valuable.

How we measure
Number of tonnes of ore extracted from our Mining Division, excluding output from mines in the former Gold Division: Central Mukur and Mizek.

2012 Performance
Ore output was affected by a shortage of railcars and extreme weather at the start of the year, however overall ore extraction was 12% higher than in the prior year as the Mining Division re-opened the Konyrat mine and there was a full year's production from the Akbastau mine.

Cash costs of copper after by-product credits (USc/lb)

174

12	174
11	114
10	89
09	72
08	116

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

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

2012 Performance
The gross cash cost increased from 249 USc/lb to 333 USc/lb as sales volumes declined while operating costs were higher, reflecting the reduction in copper grade and cost inflation, in particular wages and transportation. By-product credits increased in 2012 as the restrictions on precious metals sales implemented by the National Bank of Kazakhstan in 2011 were lifted which allowed the gold inventory accumulated during the prior year to be sold in 2012. However, the increase in by-product revenues was not sufficient to offset the rise in gross costs, leading to a 53% higher net cash cost in 2012.

Copper cathode equivalent production from own material (kt)

292

12	292
11	299
10	303
09	320
08	343

Relevance
Copper, the Group's principal product, represents 68% of the Group's revenue and is the main operational indicator. The price of copper is set by the market and is not, therefore, a KPI.

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

2012 Performance
Copper cathode equivalent production was within the 285-295 kt range indicated at the start of the year. There was a slight increase in copper in concentrate produced in 2012, however, as the prior year benefited from the processing of work in progress built-up at the end of 2010, there was a 7 kt reduction in copper cathode equivalent production from own material when compared to 2011.

Maintenance spend per tonne of copper cathode ($/t)

2,065

12	2,065
11	1,237
10	1,075
09	644
08	1,038

Relevance
Indicates how much cash flow is required to maintain current output and how efficient we are at controlling capital expenditure.

How we measure
Sustaining capital expenditure, for the Mining Division, divided by copper cathode production volumes from our own material.

2012 Performance
Maintenance spend per tonne was 67% higher than last year at $2,065 per tonne, driven by investment to improve working conditions, raise productivity and maintain current output. Capital expenditure in 2012 included equipment replacement at the Balkhash and Zhezkazgan concentrators and the ongoing reconstruction of the Nikolayevsky concentrator. The Konyrat and Itauz mines were opened during 2012 and work has commenced on the re-opening of North Nurkazgan mine.

Managing our risk

The identification and management of risks and opportunities across the Group are integral to the Group's strategic objectives. They are vital in helping protect the Group's businesses, its people and its reputation.

The Group's risk environment has improved significantly over the past few years, with a risk management framework embedded in operational management processes and good progress being made in better understanding and managing the Group's significant risks.

The Group's approach to internal control is business risk driven, with emphasis given to operational, compliance and financial risks. During the year management have further developed the Group's risk evaluation process, enhancing risk profiling exercises undertaken by operating businesses to identify, evaluate and control risk. Further details of the Group's approach to internal control are set out in the Governance Framework section on pages 56 to 57.

Risk management

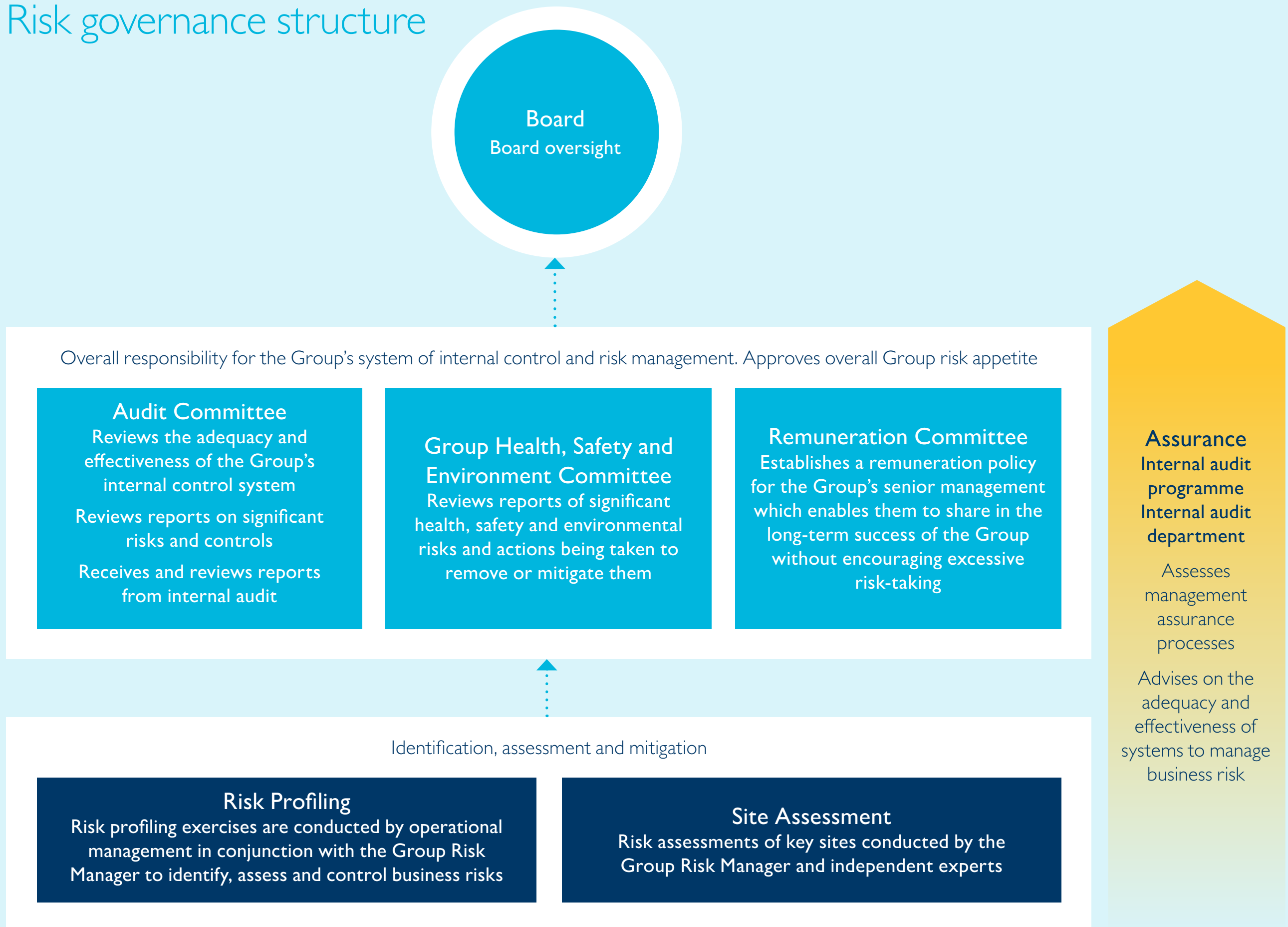
The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework. The Board has approved a formalised but pragmatic Group risk management framework. This framework is designed to provide assurance that risks are being identified and managed in a manner appropriate to the Group's circumstances. It comprises risk identification, assessment and management processes, together with risk response and monitoring activities.

The Group Risk Manager coordinates the risk assessment and identification activities, and facilitates the development of appropriate responses to identified risks. Details of the process for identifying and managing the Group's risks are set out below and further information on the risks identified with mitigating actions where relevant are set out in the Principal Risks section on pages 42 to 47.

Risk profile

Once the Group's significant risks have been identified, each risk is then assessed as to its probability of occurrence and impact on the Group. Each risk is then placed onto the Group risk map and regularly reviewed to ensure that its positioning continues to be an accurate representation as to its

Risk governance structure



For more information see pages
42 Principal Risks
50 Governance Framework

probability and impact on the Group. There are also other risks which have been identified by management but which are not considered as one of the Group's significant risks at the current time. These risks are also placed onto the Group risk map but are identified as risks being closely monitored by management. A graphic representation of the Group risk map is shown below.

Operational risks

Kazakhmys' operations, financial results and reputation may be adversely affected by a number of internal and external factors impacting its businesses and employees. The following risks represent the significant operational risks identified by management:

- Health and safety
- Business interruption
- Assets controlled by third parties and joint ventures
- New projects
- Labour, mining equipment and supplies
- Labour and community relations
- Political risk
- Reserves and resources

Compliance risks

Kazakhmys' reputation and financial results may be adversely affected by its failure to comply with regulatory and statutory requirements. The following risks represent the significant compliance risks identified by management:

- Subsoil use rights
- Environmental compliance

Financial risks

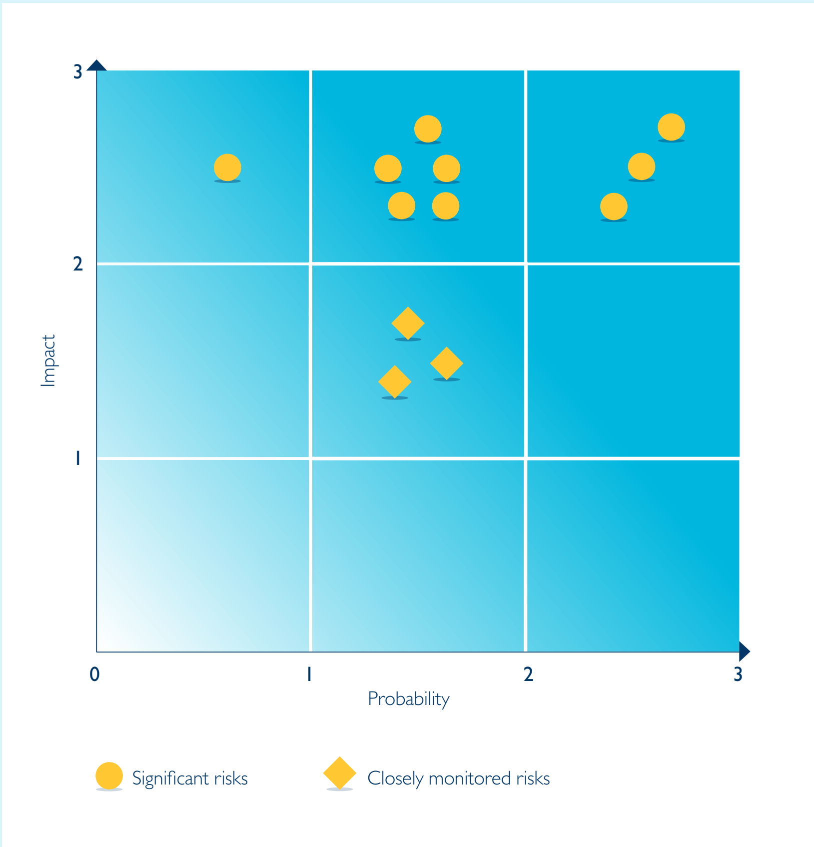
Kazakhmys' operations and financial results may be adversely affected by the Group's financial strategy and changes in the global economy. The following risks represent the significant financial risks identified by management:

- Commodity prices
- Exposure to China
- Acquisitions and divestments
- Liquidity risk
- Taxation

For more information see page
42 Principal Risks

Risk Management Framework

How we profile our risk reporting



Investing for responsible growth

Corporate Responsibility (CR) is a key pillar of our business strategy. Running our business responsibly enables us to access capital, lower operational costs, build good relationships with regulators and local communities, and attract and retain the best employees. That is why our mining, smelting and power generation operations must manage their risks carefully to prevent harm to people and the environment.

CR Key Performance Indicators

In addition to the business KPIs on page 14 we report performance on six CR KPIs for the most significant social and environmental issues for our business.

Safety

Fatalities
(direct employees and contractors)

19

12	19
11	24
10	27
09	15
08	32

Relevance
Measures effectiveness of safety management.

How we measure
Number of work related fatalities for all workers at our operations.

2012 performance
15 employees and four contractors sadly died at our mining operations in 2012, compared to 19 employees and five contractors in 2011. While this is a reduction from 2011, any fatality is unacceptable.

Long-term goal
We do not accept any fatality in our business and we continue to strive to achieve zero fatalities.

Lost-time injury frequency rate (LTIFR) (direct employees)

1.78

12	1.78
11	1.55
10	1.47
09	n/a
08	n/a

Relevance
Reduction in frequency of non-fatal injuries indicates behavioural change towards safety culture.

How we measure
Number of hours lost through injury, per million hours worked.

2012 performance
The LTIFR for injuries reported by employees increased by 15% from 1.55 to 1.78. Evidence shows this is largely due to improved reporting practices.

Long-term goal
As we continue to encourage employee reporting of incidents, we anticipate an increase in our LTIFR. Long term, however, we are aiming for an annual reduction of 10%.

Safety training
(average hours per employee trained)

40.1

12	40.1
11	41.4
10	38.5
09	n/a
08	n/a

Relevance
Ensuring employees have the skills to manage safety risks is key to achieving a safety culture.

How we measure
Average number of hours training in health and safety, for employees receiving training.

2012 performance
28,128 employees were trained in health and safety, an increase of 8% compared to 2011 as we progress with our Health and Safety awareness programme and standardise our approach to training.

For more information see pages
48 Corporate Responsibility
50 Governance Framework

A message from Philip Aiken

I believe that we have continued to improve our corporate responsibility approach and performance in 2012. Our first focus is the safety of our workers and although there has been progress, the Board expects further significant improvements.

This year, in line with guidelines, we have revised our approach to corporate reporting, presenting a shorter, more strategic summary of progress and outlook. This report covers only the most material issues and we provide more additional detail on CR online. I urge you to visit our website to read more about how we manage our environmental and social risks, our progress to date and the action taking place on the ground.

We continue to put considerable effort into improving our data collection processes to ensure we report on and manage our CR activities more accurately and regularly, and set clear long-term targets. We aim to achieve external assurance of our CR reporting in future and have appointed an external consultant to review our approach and commence the assurance process.

These developments continue to be underlined by our Board's commitment to improving the environmental and social impacts of the Group. The Group Health, Safety and Environmental (HSE) Committee remain fully involved in reviewing and directing our corporate responsibility approach and performance, although we recognise that we still have more to do.

Reporting on key issues

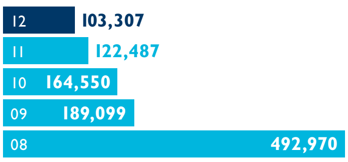
Our material health, safety and environmental risks are outlined in the Group risk management section of this report on page 16. We report progress against our CR KPIs below, and provide an update on our CR performance and significant activities in 2012 on page 48 of this report. For more detailed information about our approach, policies, standards and management systems for these and other CR issues please visit our website at www.kazakhmys.com/corporate_responsibility.

Philip Aiken
Non-executive Director
and Senior Independent Director

Environment

SO_2 emissions
(tonnes – Mining Division only)

103,307



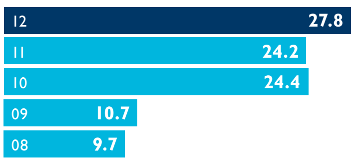
Relevance
Sulphur dioxide (SO_2) is harmful to people and the environment and is emitted during copper smelting.

How we measure
Tonnes of SO_2 emitted from copper production plants.

2012 performance
Our mining division reduced its sulphur dioxide (SO_2) emissions by 16% in 2012 reflecting the lower production output and uninterrupted operations at our Balkhash sulphuric acid plant.

CO_2 emissions
(million tonnes)

27.8



Relevance
CO_2 is the primary greenhouse gas emitted by our operations.

How we measure
Tonnes of CO_2 emitted from our operations. Includes emissions from:

- copper production
- captive power stations fuelling our mining operations and producing heat and energy for nearby communities; and
- Ekibastuz GRES-1 power station (energy sold to third parties).

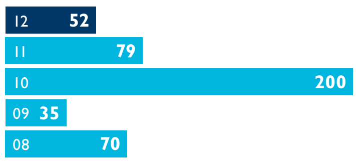
2012 performance
CO_2 emissions increased by 15% in 2012 to 27.8 million tonnes from 24.2 million tonnes in 2011 reflecting the output increase at Ekibastuz GRES-1 following the increased demand for electricity in Kazakhstan and the commissioning of a new turbine.

Long-term goal
25% improvement in energy efficiency by 2020.

Employees and social

Total community investment
($ million – Mining Division only)

52



Relevance
Indicates level of financial investment to support communities impacted by our operations and improve employees' working lives.

How we measure
Millions of dollars invested in social projects, including education, healthcare, infrastructure, charity and employees' welfare. Includes investments made voluntarily and required under licence.

2012 performance
We honoured our annual agreements with regional authorities and continue to provide support and sponsorship to individual organisations and causes. In 2012 we commenced the transfer of ownership of some social assets held within the Group back to the Government, which assisted in the reduction of the community investment figure.

Experienced leadership

Vladimir Kim
Chairman

Appointed to the Board: 2005

Vladimir Kim will step down as Chairman at the conclusion of the forthcoming Annual General Meeting, but will remain on the Board as a non-executive Director.

Nationality: Kazakhstani

Skills and experience:
Vladimir Kim joined the Group in 1995, when he was appointed managing director and chief executive officer of Zhezkazgantsvetmet JSC and was elected chairman of the board of directors of that company in 2000. He was appointed Chairman of the Company in 2005 prior to its listing on the London Stock Exchange. With extensive knowledge of the mining industry, a thorough working knowledge of the CIS and an exemplary understanding of the political and regulatory environment in Kazakhstan, Vladimir Kim brings extensive Kazakh mining experience and effective Board management skills. Age 52.

Committee membership:
Chairman of the Nomination Committee.

Oleg Novachuk
Chief Executive

Appointed to the Board: 2005

Nationality: Kazakhstani

Skills and experience:
Oleg Novachuk joined the Group in 2001 and was appointed Chief Executive in 2007, having been Finance Director since 2005. He was formerly vice president of financial projects for Kazakhmys Corporation LLC and the financial adviser to the president of Kazakhmys Corporation LLC, and chairman of the board of directors of Kazprombank JSC. Age 42.

Eduard Ogay
Executive Director

Appointed to the Board: 2011

Nationality: Kazakhstani

Skills and experience:
Eduard Ogay was appointed as an executive Director in May 2011, having joined the Group in 2001 as director of marketing and international relations, becoming director of corporate development in 2005. He was appointed Chief Executive Officer of Kazakhmys Corporation LLC, the Group's principal subsidiary, in 2006, a position he continues to retain. Age 43.

Simon Heale
Non-executive Director and Deputy Chairman

Appointed to the Board: 2007

As announced on 28 February 2013, Simon Heale will replace Vladimir Kim as Chairman at the conclusion of the forthcoming Annual General Meeting.

Nationality: British

Skills and experience:
Simon Heale has significant global marketing and business operations and management experience having been chief operating officer of Jardine Fleming Limited, deputy managing director of Cathay Pacific Airways and chief executive of The London Metal Exchange. He has also been a non-executive director and chairman of Panmure Gordon & Co plc. Age 59.

Other appointments:
Non-executive director of The Morgan Crucible Company plc, Coats plc, Marex Spectron Group Limited and PZ Cussons plc. He is also a trustee and treasurer of Macmillan Cancer Support.

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

Philip Aiken
Non-executive Director and Senior Independent Director

Appointed to the Board: 2006

Nationality: Australian

Skills and experience:
Philip Aiken has extensive global experience in the engineering and energy sectors. He was formerly group president of BHP Billiton's energy business, an executive director of BTR plc, held a number of senior positions in BOC Group plc and was a senior advisor to Macquarie Capital (Europe) Limited. Age 64.

Other appointments:
Chairman of AVEVA Group plc, senior independent director of Essar Energy plc and a non-executive director of National Grid PLC.

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

For more information see pages
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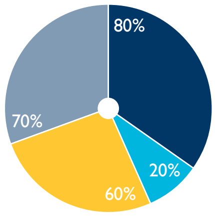
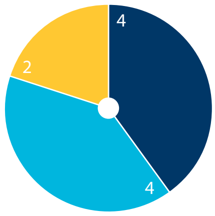
Directors' experience/background

- Metals and mining
- Power
- Oil and gas
- Finance



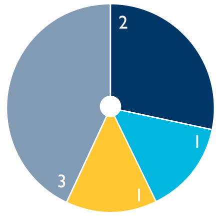
Directors' nationality

- Kazakhstani
- British
- Australian



Length of tenure of non-executive Directors

- 0-2 years
- 2-4 years
- 4-6 years
- 6-8 years



Lord Renwick of Clifton, KCMG
Non-executive Director

Appointed to the Board: 2005

Nationality: British

Skills and experience:
Lord Renwick has had a diplomatic career spanning over 30 years, including serving as British Ambassador to the United States and to South Africa. He was a non-executive director of BHP Billiton plc, SABMiller plc, British Airways plc, Liberty International plc, Fluor Corporation and Harmony Gold Mining Company Limited. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board. Age 75.

Other appointments:
Deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont SA and Bumi plc. He is also vice chairman, Investment Banking of J.P. Morgan Europe and vice chairman of J.P. Morgan Cazenove.

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

Daulet Yergozhin
Non-executive Director

Appointed to the Board: 2008

Nationality: Kazakhstani

Skills and experience:
Daulet Yergozhin has been Head of the Socio-Economic Monitoring Division of the Administration of the President of the Republic of Kazakhstan since November 2012, having been vice finance minister of the Republic of Kazakhstan, chairman of the tax committee of the Ministry of Finance and having held a number of other governmental positions since 2006. Prior to his governmental appointments, he gained considerable exposure to the oil and gas sectors becoming deputy director of the North-Caspian project department of JSC NC KazMunaiGas before moving to a deputy director general role in JSC 'Offshore Oil Company KazMunayTeniz', a subsidiary of JSC KazMunaiGas. He also previously worked for KazTransOil JSC and has been a non-executive director of ENRC PLC. Age 33.

Clinton Dines
Non-executive Director

Appointed to the Board: 2009

Nationality: Australian

Skills and experience:
Clinton Dines has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988, he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, became president, BHP Billiton China, a position from which he retired in 2009 prior to joining Kazakhmys. He brings exceptional knowledge of China combined with global resource industry and management experience. Age 55.

Other appointments:
Executive chairman Asia of Caledonia (Private) Investments Pty Limited, a non-executive director of Zanaga Iron Ore Company Limited and a member of the advisory board of Pacific Aluminium.

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

Charles Watson
Non-executive Director

Appointed to the Board: 2011

Nationality: British

Skills and experience:
Charles Watson has an extensive background in both operational management and major project delivery, having spent 29 years at Shell. During his time at Shell he held a number of senior executive positions throughout the world, culminating in his appointment as executive vice president covering Russia and the CIS, including oversight of Shell's activities in Kazakhstan, chairman of Shell Russia and chairman of the board of directors for the Sakhalin Energy Investment Company. Age 58.

Other appointments:
Non-executive director of Taipan Resources Inc. and JSOC Bashneft.

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

Michael Lynch-Bell
Non-executive Director

Appointed to the Board: 27 February 2013

Nationality: British

Skills and experience:
Michael Lynch-Bell has extensive experience in the mining, oil and gas industries having spent his whole 38 year career with Ernst & Young developing and later leading its global mining and energy practices. During his time with Ernst & Young, he played a key role in establishing Ernst & Young's practice in Kazakhstan and advised a number of major CIS companies on transactions. He retired as senior partner of their transaction advisory practice for mining and metals and as an elected member of Ernst & Young's global advisory council in June 2012. He continues to act as a senior advisor to Ernst & Young's transaction advisory practice. Age 59.

Other appointments:
Board member and treasurer of Action Aid International.

Committee memberships:
Member of the Audit Committee.

Committed to good governance

The Board is committed to high standards of corporate governance in its management of the affairs of the Group and in its accountability to shareholders. It is the responsibility of the Board to demonstrate leadership and effectiveness and be accountable to its shareholders and other stakeholders.

The last few years have seen a number of reviews and consultations aimed at examining and improving corporate governance practices. Following its review of the UK Corporate Governance Code during the year, the Financial Reporting Council (FRC) published a revised edition of the UK Corporate Governance Code (the 'New Code') in September 2012 which applies to companies with a premium listing on the London Stock Exchange with accounting periods beginning on or after 1 October 2012, which for Kazakhmys is the financial year ended 31 December 2013.

The Company is currently reviewing the provisions of the New Code and considering how best it can comply with all of the recommendations to ensure the continued successful operation of its business.

Although the Governance Framework report set out on pages 50 to 63 has been prepared in accordance with the UK Corporate Governance Code issued by the FRC in June 2010 (the 'Code') which applies to the Company's Annual Report and Accounts for the year ended 31 December 2012, the Company has taken steps to adopt some of the provisions of the New Code earlier than formally required.

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

The Governance Framework report set out on pages 50 to 63 explains in detail how the Company has applied the principles and complied with the provisions of the Code, the steps it has taken to adopt some of the provisions of the New Code and also provides further details of the matters the Board and its committees considered during the financial year. However, I would like to draw your particular attention to some specific points.

Board role and effectiveness

The core purpose of the Board is to create and deliver the long-term success of the Company and long-term returns for shareholders. This requires the Board to set the Company's strategic aims, ensure that the necessary financial and human resources are in place to achieve the Company's objectives, review management performance in delivering against strategy and set the Company's risk appetite.

The Board needs to ensure that the risk management measures and internal controls that are put in place are appropriate and effective. Finally, the Board must remain aware of its obligations to the Company's shareholders and other stakeholders and respond to their needs with transparent reporting and active engagement.

The role of the Chairman in determining the effectiveness of the Board is vital. The Chairman continues to provide entrepreneurial leadership to the Board, while ensuring that sound effective corporate governance practices are embedded in the organisation and its decision-making processes. He sets the Board's focus and establishes an environment of collaborative, but robust discussion, encouraging challenge and contributions from all Directors.

The Board has four principal committees to deal with specific aspects of the Group's affairs. Detailed information on the roles and responsibilities, and the activities undertaken during the year by each committee are set out in their respective sections as referred to on page 23.

New Chairman

Having put in place the listing on the London Stock Exchange, the funding of our growth projects and the start of their development, our current Chairman, Vladimir Kim, announced at the Annual General Meeting in May 2012 that he felt it was the right time to hand on the role to a new, independent non-executive Chairman which would bring the Company fully into line with the provisions of the Code. He will remain on the Board as a non-independent non-executive Director and continue to be closely involved with the Company.

The process to identify a new Chairman was led by myself, as Senior Independent Director. A formal, rigorous and transparent search process was put in place with a candidate profile and position specification prepared and an executive search consultant, Spencer Stuart, appointed to assist with the process. In accordance with best practice, Vladimir Kim was not involved in the process to recruit his successor.

A number of candidates, both external and internal, were considered for the role and it was agreed that Simon Heale met the specification of the role, possessing all the necessary skills, experience, knowledge and independence. As announced on

For more information see pages
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28 February 2013, Simon Heale will assume the role of Chairman following the conclusion of the Company's Annual General Meeting on 17 May 2013. More detailed information on the process to identify the new Chairman is set out in the Nomination Committee section of the Governance Framework report on page 63.

Diversity

Following the publication of the Davies Report on the representation of women on plc boards, our Nomination Committee discussed its recommendations. The Company takes account of diversity when recruiting, including when we consider our Board appointments, and will continue to do so in the future. However, whilst we see a significant business benefit in having a Board drawn from a diverse range of backgrounds who bring the required expertise, cultural diversity and different perspectives to Board discussions, we do not believe this is achieved through simple quotas, whether it be gender or otherwise, and will continue to appoint candidates based on merit and relevant experience in accordance with the requirements of the Code.

The Board recognises the need to create the conditions that foster talent and encourage more women to achieve their full potential in their careers in the Company. As part of our overall approach to human resource management we encourage employee diversity and aim to ensure that Kazakhmys' future senior leadership team reflects the demographics of the countries in which we operate and the general employee base.

The Board consists of Directors of different ages with a wide range of skills and business experience drawn from a number of industries, which is critical for bringing both the expertise required, and to enable different perspectives to be brought to Board discussions. Furthermore, the Board comprises a range of nationalities, which brings cultural diversity as well as different geographical experiences and viewpoints.

The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision making.

The Nomination Committee regularly reviews the composition of the Board, its committees and the succession planning of the non-executive Directors in respect of skills, knowledge, experience and general diversity, including gender.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. The Board has adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness. The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these risks is vested in the Board, with the Audit Committee having delegated authority for reviewing the Group's risk management framework. More detailed information on the Group's system of internal control and risk management can be found in the Governance Framework report on pages 56 to 57 and the Summary Risk Management section on pages 16 and 17.

Shareholder engagement

Engaging with shareholders is one of the key aspects of corporate governance. During the year the Chairman, Chief Executive, Chief Financial Officer and I, supported by the Group's corporate communications team, have regularly met with institutional shareholders and analysts. The Board also receives regular reports from the Corporate Communications department on its activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood. This will remain a key focus for the Board in 2013.

At the Company's forthcoming Annual General Meeting all Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues they may have. I encourage as many shareholders as possible to attend the Annual General Meeting on 17 May 2013.

Philip Aiken
Senior Independent Director

Board committees

Audit Committee

See page 59

Simon Heale
Chairman, Audit Committee

GHSE Committee

See page 61

Philip Aiken
Chairman, Group Health, Safety and Environment Committee

Nomination Committee

See page 62

Vladimir Kim
Chairman, Nomination Committee

Remuneration Committee

See page 64

Lord Renwick of Clifton, KCMG
Chairman, Remuneration Committee

Rewarding performance

Dear Shareholder

In last year's report, I stated that remuneration was a high profile issue. This statement was certainly proven right in 2012, with increased shareholder activism and regulation raising the profile of remuneration still further.

Changes to remuneration governance

In June 2012 the Secretary of State for Business Innovation and Skills announced a far reaching package of measures to improve the corporate governance framework for executive remuneration. This included giving shareholders more power through a new binding vote on remuneration policy and greater transparency of what executives are paid. The Committee endorses the accountability, transparency and engagement that the reforms are aiming to achieve. Whilst the changes do not come into force until 1 October 2013, the Committee has decided to introduce a number of the changes in this year's annual report and to introduce further changes in the 2013 annual report once the details of the regulations have been finalised. A resolution to approve the remuneration policy will be put to shareholders at the 2014 annual general meeting.

The changes to the structure and layout of this year's remuneration report are designed to improve transparency and to provide additional information on the alignment of strategy and executive Director remuneration. A new table summarising the annual earnings of each executive Director culminating in a

Executive Director remuneration policy 2013

Summary of remuneration policy

Fixed remuneration

Base salary

Benefits

Variable remuneration

Short term – Annual

Annual bonus plan – linked to Group performance (operational, financial, strategic and shareholder returns)

Long term – Three years +

Long term incentive plan linked to relative TSR performance against comparator group.

Total remuneration

	Salary	Benefits
Purpose and link to strategy	To attract and maintain high calibre executives reflecting market median levels based on role and executive's skills and experiences	Provide market competitive benefits to help recruit and retain high calibre executives
Operation	Reviewed annually, effective 1 January Any increases take account of: • Company and individual performance • External indicators such as inflation and market conditions • Remuneration levels of Group employees, particularly in the UK Adjusted to take account of the absence of any pension provision for executive Directors	Provision of benefits such as: • Private medical insurance • Car and driver • Relocation assistance • All employee share schemes
Maximum	Salaries for 2013 will be: Vladimir Kim: £1,061,500 Oleg Novachuk: £856,000 Eduard Ogay: £532,000	n/a
Performance targets	Salary reviews take account of Company and individual performance	n/a
Changes for 2013	No increases were made to executive Directors' salaries in 2012 and no increases will be made in 2013	No change

For more information see pages
64 Remuneration Report

single remuneration figure has also been included to enhance transparency. It is hoped that these changes to the Committee's disclosure practices will create a fuller understanding of the Group's remuneration practices and enhance its engagement with key stakeholders going forward.

Objectives of the Committee

The Committee's objective is to attract and retain high calibre executives who are focused to deliver the Group's strategic and business objectives, while relating reward to performance in the context of appropriate risk and safety management, and aligning the interests of executive Directors and senior managers with those of shareholders to build a sustainable performance culture.

The Group continues to focus on optimising its existing assets, delivering its growth projects and taking advantage of natural resource opportunities principally in the Central Asian region. The Committee believes that achievement against these objectives will deliver strong long-term financial performance and shareholder value on a sustainable basis. Therefore, in determining the levels of executive reward, the Committee continues to place considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received, and the achievement of Kazakhmys' strategic and business objectives.

Remuneration policy

The remuneration of executive Directors is made up of base salary, plus some benefits-in-kind, and, subject to stretching performance conditions, cash awarded under an annual bonus plan and shares awarded under a long term incentive plan.

Performance and reward

In spite of challenging market conditions the executive management team were able to deliver sound financial results, robust operational performance and targeted strategic development of key projects. Share price performance was poor. Safety performance continues to improve but requires further improvement and, in light of this, the Committee scaled back resulting bonuses. The overall level of performance achieved resulted in bonuses paying out in the range of 48% to 80% of salary for the executive Directors. The 2009 Long Term Incentive Plan awards, measuring performance from November 2009 to October 2012, lapsed on failing to achieve the required total shareholder return target.

Lord Renwick of Clifton, KCMG
Chairman, Remuneration Committee

Annual Bonus Plan	Long Term Incentive Plan
Incentivise the delivery of annual objectives consistent with the Group's strategy, without encouraging short-term measures or excessive risk-taking	Incentivise long-term value creation and alignment with longer-term returns to shareholders
Paid as cash Not pensionable Clawback facility to take account of material and exceptional adverse circumstances which may arise after the payment of the bonus which makes the payment of that bonus unwarranted	Annual grant of nil-cost options
Maximum bonus potential for the achievement of stretching performance objectives: • Oleg Novachuk: 200% of salary • Vladimir Kim: 120% of salary • Eduard Ogay: 120% of salary	Maximum of 250% of salary per annum Award policy currently set at 200% of salary per annum Vladimir Kim does not participate in the Plan
Payments determined on the basis of four equally weighted discrete elements: • Operational performance • Financial performance • Strategic development • Shareholder return Payments scaled back in the absence of an improvement in the Company's safety performance Targets set by reference to the operating and financial plans Target bonus of 50% of maximum bonus potential	Awards under the Long Term Incentive Plan are rights to receive nil-cost shares, subject to a relative TSR performance measure Each award is split into two sub-awards, each of which is subject to a relative TSR performance condition over a separate three year period measured independently Results in a combined 41 month performance period Awards vest in full for upper quartile performance, 30% of an award vests for median performance and no awards vest for below median performance
No change	No change

Detailed Information

Photo: Konyrat mine

Contents

Our operations

Kazakhmys Mining

Review of Kazakhmys Mining
The Kazakhmys Mining Division incorporates the Group's mining, concentrating, smelting and auxiliary operations in Kazakhstan and the sales operation in the United Kingdom. The Division's key products are copper cathode and rod, zinc in concentrate, silver granule and bar along with gold bar and doré. These products are sold to customers in Europe, the CIS, China and other countries in Asia based on pricing which is referenced to the LME and LBMA metal exchanges.

Market overview
The pricing environment for copper, zinc and silver products for which demand is linked to industrial usage, was weaker than in 2011. The average LME cash price for copper was 10% lower than in the prior year, despite the continued tight supply and demand fundamentals for the metal. The average price for silver on the LBMA exchange was 11% below the prior year, and the average zinc price fell by the same margin.

The decline in pricing levels for these products reflected the slowdown in economic growth rates in China, the United States and Europe during 2012. Global industrial production growth is forecast to have reduced to 2.8%, down from 4.7% in 2011. Negative market sentiment around European sovereign debt levels, the potential for spending cuts and tax rises in the United States to have come into force from the start of 2013, and the extent of the economic slowdown in China also weighed on industrial metal prices during the year.

Gold prices benefited from public and private investment demand supported by the monetary easing and looser fiscal policies adopted by a number of major economies in 2012 with the average LBMA exchange price rising by 6%.

Copper
During 2012, the LME cash price averaged $7,949 per tonne, 10% below the level seen in 2011. Negative sentiment over the outlook for global economic growth and the impact that lower industrial production levels would have on copper demand were reflected in the LME cash price for copper during the second and third quarters of 2012. The copper price rose over the final quarter of 2012 as more positive economic data emerged from China and the United States.

The global refined copper market is expected to have moved into a marginal supply surplus position in 2012 after being in deficit in 2011 and 2010. The copper inventories held at the LME, Comex and Shanghai Futures Exchange warehouses rose by 43 kt in 2012, finishing the year at 596 kt, the equivalent of 11 days of global copper consumption.

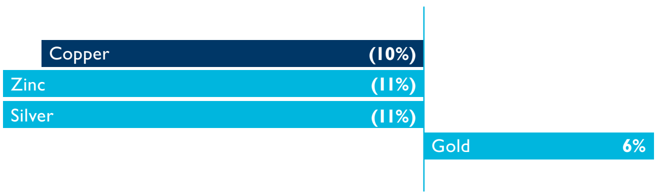
Global demand for copper was robust in 2012 and refined copper consumption is predicted to have grown to 19.8 MT in 2012. The expansion of global refined copper consumption was supported by the continued urbanisation of China and accompanying infrastructure improvements throughout the country.

Refined copper consumption fell in all the major economies in Europe as industrial production contracted in 2012 and both capital investment and consumer spending levels reduced. In the United States, there was a minimal rise in refined copper consumption as domestic economic activity improved during the second half of 2012.

Kazakhmys' largest market for copper sales is China which is the leading consumer of refined copper in the world. In 2012, China accounted for 41% of global consumption, well ahead of the second largest consumer, the United States, which accounted for 9%. Chinese refined copper consumption is expected to have grown by 5% in 2012, assisted by forecast industrial production growth of 10% and an 8% rise in gross domestic product.

Industrial production growth in China was below the 14% achieved in 2011 with economic activity weaker during the middle of 2012 as the economic slowdown in the Eurozone, China's largest trading partner, impacted the export market along with a slowdown in domestic construction activity. The Chinese economy recovered towards the end of 2012 assisted by increased government spending and looser monetary policy. Demand for refined copper was supported by China's manufacturing sector and investments to develop the country's power grids.

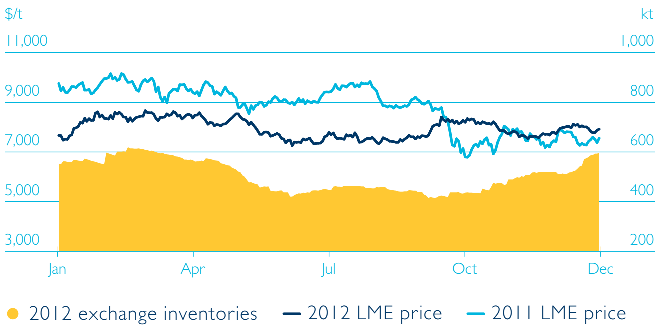
Average price movement in 2012[1]



[1] Average price quoted on the LME and LBMA exchange compared to 2011.

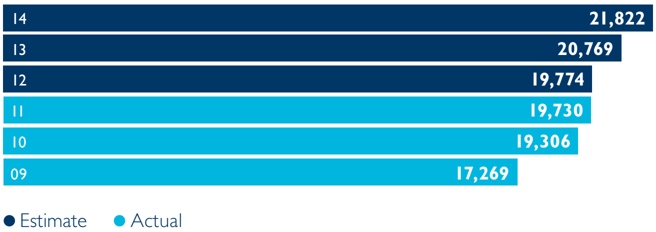
Source: Bloomberg

Copper price and exchange inventories



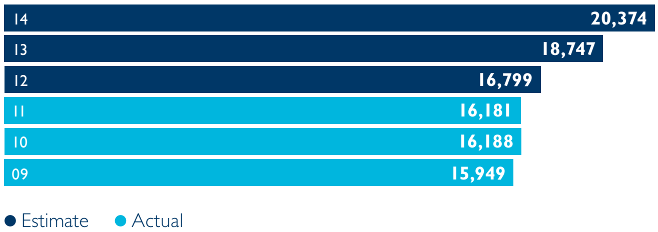
Source: Bloomberg

Global refined copper consumption (kt)



Source: Wood Mackenzie

Total copper production from mines (kt)



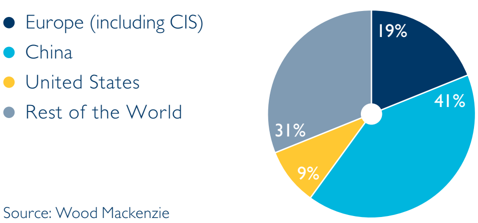
Source: Wood Mackenzie

Kazakhmys Mining's other major copper market, Europe, recorded a 7% decline in refined copper consumption in 2012, with falling demand throughout most of the region, including Germany, France, Spain and Italy. European trade and consumption levels were impacted by the austerity measures aimed at reducing public debt and low consumer confidence. These factors limited capital investment and also consumer spending in the region. Industrial production in the Eurozone is anticipated to have contracted by 2% in 2012, down from the 5% growth achieved in 2011.

On the supply side of the copper market, total copper production from mines is forecast to have grown by 4% in 2012 after a number of years of flat production volumes. There was additional output from brownfield mine extensions in South America and the commencement of a number of greenfield mines in Central Africa. Industrial action has had a limited effect on global copper production in 2012 compared to the impact strike action had on production volumes in the prior year. Whilst the copper supply grew in 2012, a number of projects were delayed and the ramp up of recently launched mines was slower than scheduled.

The copper market is expected to remain in a marginal supply surplus position in 2013. Chinese refined copper consumption is forecast to grow by a further 9% following on from the positive economic indicators in late 2012 with an upturn in the construction industry and assistance from the government. Demand for copper in Europe is anticipated to grow in 2013 as economic activity in the region improves.

2012 global refined copper consumption



Source: Wood Mackenzie

In 2013, the growth in demand for copper is forecast to be offset by higher production volumes. The supply of copper from mines is predicted to increase by 12% with growth from greenfield and brownfield expansion projects in Central Africa, and in Chile with the ramp up of mine expansions and improved performance by existing producers.

Kazakhmys Mining has annual sales contracts in place for the majority of its planned copper cathode production in 2013. Around 75% of the contracted sales will be made to Asia, principally China, with the remaining contracted volumes to be sold into the European market. Sales of copper rod have been contracted to customers within the CIS in 2013.

The pricing of copper cathode and rod sales is based on the LME price plus a premium to reflect the terms of trade. In 2013, premiums on contracted copper cathode sales to Europe will be broadly consistent with 2012, while premiums on contracted sales to China have fallen with the lowering of Codelco's annual Chinese premium and increased competition in the marketplace. The costs of shipping product to the Chinese market remain below that for deliveries to Europe.

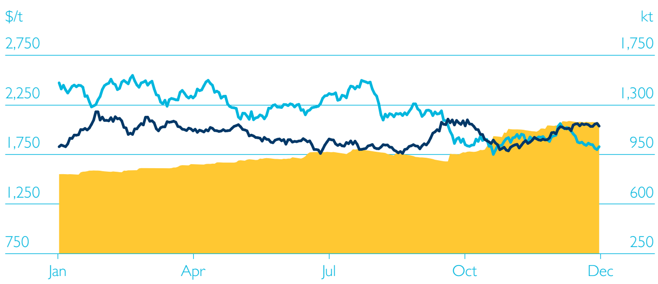
Zinc

The refined zinc market is forecast to have been in a supply deficit position during 2012 after being in a surplus position over recent years. This is despite an estimated 5% growth in zinc production from mines, as excess smelter capacity in China has resulted in low treatment charges forcing higher cost smelting operations to suspend their operations. As a result, refined zinc production volumes were below 2011 levels.

Demand for refined zinc was assisted by strong Chinese galvanised sheet production and driven by infrastructure investment and growth in vehicle production, notably in China and the United States. Zinc consumption was lower in the construction and consumer goods sectors, which were affected by austerity measures in Europe and the economic slowdown in China.

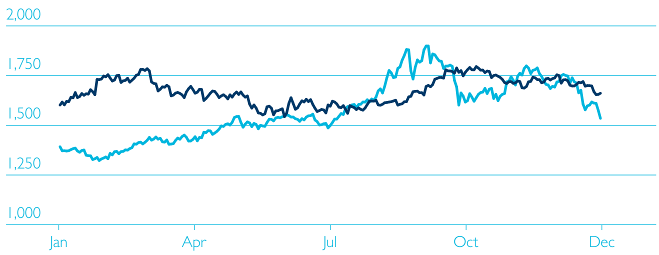
While the refined zinc market moved from a surplus to a deficit position in 2012, the zinc price on the LME averaged $1,946 per tonne in 2012, 11% below the average price in 2011. However, the zinc price finished the year at $2,035 per tonne, 11% above the price at the start of the year. Zinc inventory levels at the LME rose significantly in 2012 reflecting the view that outside of China, the refined zinc market remained in a surplus position.

Zinc price and LME inventories



Source: Bloomberg

Gold price ($/oz)



Source: Bloomberg

In 2013, the refined zinc market is forecast to be in a balanced position with demand sustained by continued industrial growth in China. Production is forecast to grow further in 2013 despite the anticipated closure of some key zinc producing mines. The significant levels of global refined zinc inventories are not expected to reduce in the foreseeable future.

Kazakhmys Mining has concluded its contracts for 2013 and will sell zinc concentrate within Kazakhstan and into China based on the LME price less processing charges.

Precious metals

Gold

In 2012, the LBMA gold price averaged $1,669 per ounce, 6% above the average price in 2011. The gold price was strongly influenced by the monetary policy actions of major economies in 2012, including the United States, as gold represented a safe haven for investors. Demand for gold benefited from global economic policies implemented to assist economic growth, in particular quantitative easing in the third and fourth quarters of 2012. These factors offset the lower demand for gold jewellery in India.

The supply of gold has increased in recent years with production from new mines and mine extensions growing 4% annually between 2009 and 2011. This slowed in 2012 to an estimated 2%, impacted by factors such as declining ore grades, rising costs, and challenges in developing new reserves.

Investment demand is expected to be the main driver of gold prices in 2013 with governments anticipated to continue with looser monetary policies and as concerns remain over government debt levels in Europe and the United States. Given the dependence on investment demand, the gold price could be vulnerable to changes in investor sentiment.

In 2013, Kazakhmys Mining expects to continue gold bar sales to the National Bank of Kazakhstan based on the LBMA price at the time of delivery. Limited volumes of gold doré sales will be made to Europe, also referenced to the LBMA price.

Silver

The price of silver on the LBMA averaged $31.15 per ounce in 2012, 11% below the average price seen in 2011. Similar to copper, the silver price weakened during 2012, but recovered at the end of the year to finish at $29.95 per ounce, 4% above the price at the start of the year.

In contrast to gold, around 50% of demand for silver is for industrial applications and the silver price in 2012 was impacted by lower industrial usage. The metal did benefit from higher investment demand, as investors viewed the metal as an option to hedge against inflation and currency devaluations, broadly tracking the gold price.

The supply of silver from mines is expected to have grown by 3% in 2012, primarily as by-product production from lead, zinc and copper mines increased.

Investment demand from emerging markets is anticipated to support silver prices in 2013. Kazakhmys Mining will sell its 2013 silver production to traders based in Asia for delivery to Europe and Asia, principally under annual contracts based on the LBMA price at the time of delivery.

Silver price ($/oz)

Source: Bloomberg

Kazakhmys Mining production summary

Copper production

kt (unless otherwise stated)	2012	2011
Ore output[1]	**37,507**	33,432
Copper grade (%)	**0.95**	1.01
Copper in concentrate from own production	**304**	303
Copper cathode equivalent from own concentrate[2]	**292**	299
Copper cathodes from purchased concentrate	**2**	2
Copper rod production	**24**	32

1 Excludes output from the Central Mukur gold mine in 2011 and 2012.

2 Includes cathode converted into rod.

Kazakhmys Mining increased ore extraction volumes in 2012 to 37,507 kt, 12% above the prior year. The growth in ore output was achieved mainly due to higher production volumes from the Central Region with production from the East and Zhezkazgan Regions broadly consistent with the prior year.

In the Central Region, output rose strongly with the re-opening of the Konyrat mine in June 2012. The mine will be ramping up to its designed capacity of 7 MT of ore per annum throughout 2013 as the operating capacity of the nearby Balkhash concentrator is increased. Production volumes in the region also benefited from a full year of output from the Akbastau open pit mine which recommenced production in September 2011 after operations were suspended in 2008.

Ore production in the East Region was consistent with the prior year, as the reconstruction work on the Artemyevsky mine's backfill plant in 2011 enabled higher output. Improved availability of equipment supported higher extraction volumes at the Yubileyno-Snegirikhinsky mine. Operations at the Nikolayevsky mine were suspended in August 2012 as the mine's economics deteriorated. Equipment and personnel from the mine were transferred to support other mines in the region.

In the Zhezkazgan Region, ore volumes were marginally lower than in 2011. The region benefited from increased output from the North mine, with operations commencing at the Itauz open pit in October 2012. Output fell at the maturing Annensky mine where some sections were permanently closed in July 2012. To improve operational efficiencies, the Annensky mine was incorporated into the East mine and some sections of the East mine moved to the West mine. Zhomart, the region's largest mine by copper metal in ore extracted, maintained ore output at 3.7 MT but at a slightly reduced copper grade of 1.35%.

During 2012, the average copper grade of ore extracted fell to 0.95%, down from 1.01% in 2011. The decline in the copper grade was mainly due to the lower grade in the Central Region, in particular, incremental production from the low grade Konyrat mine, and as the grade at the Orlovsky mine reduced to 3.04%, down from 3.66% in 2011.

The copper in ore mined by Kazakhmys Mining increased by 21 kt or 6% in 2012 as the additional output from the Akbastau and Konyrat mines contributed 28 kt of copper in ore, offsetting the lower volume of copper in ore extracted from the East and Zhezkazgan Regions.

Copper in concentrate production was consistent with the prior year totalling 304 kt in 2012, despite the 6% increase in the volume of copper in ore mined. During 2012 there was additional stockpiling of material in the Zhezkazgan and Central Regions while the processing capacity of the Balkhash concentrator is upgraded. Ore containing copper and zinc, which was extracted as a by-product of mining copper ore at the Akbastau mine was stockpiled whilst technical studies continue to determine if the ore can be processed economically. Copper recovery rates at the concentrators fell slightly with the processing of lower grade material.

While copper in concentrate output from own material was marginally above the prior year, copper cathode production from own concentrate of 292 kt in 2012 was 2% below the prior year. In 2011, copper cathode production benefited from a greater release of copper material at the smelters than in 2012. The Balkhash smelter and refinery produced around 60% of the copper cathode output in the year, while the Zhezkazgan smelter continued to operate with one of its two furnaces held in reserve, and this is expected to continue in 2013.

Copper cathode production from own material is anticipated to be between 285 kt and 295 kt in 2013. This target will be supported by higher ore extraction volumes with a full year of production from the Konyrat mine and Itauz open pit at the North mine, and increased production from some of the existing mines. Copper grades are expected to decline in 2013 mainly due to the additional output from the low grade Konyrat mine.

Copper rod production was slightly below the prior year and is anticipated to reduce further in 2013 due to a decline in demand for imported rod products in China. It is expected that the lower volume of copper rod produced will be mainly sold within the CIS market.

Zinc production

	2012	2011
Zinc grade (%)	**3.31**	3.55
Zinc in concentrate (kt)	**152**	140

The zinc grade was lower in 2012 with increased production from the Akbastau mine which has a below average zinc grade. This offset the higher grade in the East Region, which produced 88% of the zinc metal in ore extracted by Kazakhmys Mining.

The quantity of zinc metal in ore extracted in 2012 was 17% above the prior year with 47 kt of additional zinc in ore material extracted from the Akbastau, Orlovsky and Artemyevsky mines, mitigating the impact of the closure of the Nikolayevsky mine. During 2012, 9 kt of zinc in ore was stockpiled at Akbastau whilst technical studies continue to determine if it is economic to process the ore. Ore from the Artemyevsky mine was also stockpiled with processing of the ore expected to occur in 2013.

Zinc in concentrate production in 2012 increased by 9% to 152 kt with the higher volume of zinc metal in ore processed due to the higher extraction volumes. In 2013, zinc in concentrate production is expected to decline to approximately 125 kt with lower grades and a decline in zinc bearing ore volumes from mines in the East Region.

Precious metals production

	2012	2011
Silver grade (g/t)	**16.8**	17.7
Silver own production[1,2] (koz)	**12,643**	13,137
Gold grade (by-product) (g/t)	**0.66**	0.66
Gold own production (by-product)[1] (koz)	**116**	118
Gold grade (primary) (g/t)	**1.31**	1.27
Gold doré production (primary) (koz)	**13**	33

1 Includes slimes from purchased concentrate.

2 Includes a small volume of by-product production from the Central Mukur and Mizek mines.

The decline in the silver grade was offset by higher extraction volumes of silver bearing ore in 2012 with the volume of silver metal in ore extracted increasing by 6% compared to 2011. Production of silver from own material during 2012 was 12,643 koz, 4% below the prior year which benefited from a significant release of work in progress.

The output of silver granule and bar is estimated to be around 11,000 koz in 2013 with a lower silver grade offsetting the higher volume of ore extraction expected.

The volume of ore containing gold extracted in 2012 increased by 15% compared to the prior year with a full year of operation from the Akbastau mine and higher ore production from the Artemyevsky mine. Gold bar production was flat on the prior year as the higher volume of gold metal in ore extracted was offset by the stockpiling of ore in 2012 and as the prior year benefited from a release of work in progress.

Gold doré production fell with the completion of mining at the Central Mukur mine in June 2012 and after the closure of the depleted Mizek mine at the end of 2010. Some processing of previously extracted ore from the mines continued in 2012 and will carry on into 2013.

Total gold bar and doré production from the Mining Division is expected to be 100 koz in 2013, below the current year production of 129 koz with declining gold doré output from the Central Mukur and Mizek mines and lower output of ore containing gold from existing mines. A small contribution of gold in concentrate is also expected from the Bozymchak mine which is due to commence production in the fourth quarter of 2013.

Support services summary

Kazakhmys Mining operates two coal mines which supply the majority of their production to the Group's captive power stations with the balance sold to external third parties. In 2012 the coal mines produced 7.3 MT of coal, consistent with the prior year.

Kazakhmys Mining also owns a rail and road transportation network to move ore, concentrate and cathodes. The road haulage fleets operate principally in the East and Karaganda Regions where there is less railroad infrastructure. The management of railway services and a number of the road haulage routes are outsourced to third party suppliers.

Kazakhmys Mining financial summary

$ million (unless otherwise stated)	2012	2011
Sales revenues:	**3,362**	3,548
Copper cathodes	**2,088**	2,318
Copper rods	**187**	252
Zinc concentrate	**154**	177
Silver[1]	**414**	479
Gold (by-product)	**300**	79
Gold (primary)	**22**	54
Other	**197**	189
Average realised price of copper ($/t)	**8,067**	8,756
EBITDA (excluding special items)	**1,160**	1,808
Net cash costs excluding purchased concentrate (USc/lb)	**174**	114
Gross cash costs excluding purchased concentrate (USc/lb)	**333**	249
Capital expenditure[2]	**1,233**	643
Sustaining	**624**	379
Expansionary	**609**	264

1 Includes a small amount of sales revenue from the Central Mukur and Mizek mines.

2 Capital expenditure excludes major social projects.

Revenues

Kazakhmys Mining's revenues decreased by 5% in 2012 due to lower realised prices and sales volumes for copper products, partially mitigated by the sale of 69 koz of gold inventory from the prior year in March 2012. A temporary export restriction on precious metals sales had prevented gold sales in the second half of 2011, with gold sales resuming in March 2012 to the National Bank of Kazakhstan and continuing monthly thereafter.

Revenue from copper cathodes and rods fell by 11% to $2,275 million in 2012. The average realised price for copper cathode and rod sales reduced by 8% to $8,067 per tonne. The realised price was above the average LME cash price for 2012 of $7,949 per tonne, reflecting the timing of sales and the premiums achieved on copper product sales.

The quantity of copper products sold decreased from 293 kt in the prior year to 282 kt in 2012, a reduction of 4%. The lower sales volumes are due to the decline in copper cathode production volumes and a 10 kt increase in finished goods inventory during the year compared to a 6 kt rise in 2011. Inventory levels rose sharply in the second quarter of 2012 due to logistical issues associated with the shipment of goods to China, however as these issues were resolved, inventory levels reduced in the second half of the year.

The volume of copper rod sales decreased from 28 kt to 23 kt as premiums on sales to China declined and therefore fewer cathodes were converted into rod.

Zinc concentrate revenue of $154 million in 2012 was 13% below the prior year. The realised price for zinc concentrate fell by 16% due to lower LME zinc metal prices which was only partially mitigated by a 3% increase in sales volumes with higher production levels.

Revenue from the sale of silver fell by $65 million in 2012, with the average realised price for silver being 12% below the prior year. Sales volumes of silver were 2% below the prior year due to the lower production volumes in 2012.

Gold product sales volumes were 107 koz above the prior year reflecting the sale of 69 koz of inventory in March 2012 which had been built up in the second half of 2011. Gold revenues also benefited from the 8% increase in the realised price for gold, averaging $1,667 per ounce compared to $1,537 per ounce in 2011 due to stronger LBMA prices in the year.

Sales revenue from gold doré produced from the Mizek and Central Mukur mines was below the prior year due to declining sales volumes partially offset by higher realised prices.

Other revenue includes sales of minor by-products from Kazakhmys Mining's operations such as lead and sulphuric acid, along with coal sales which are made to third parties and the captive power stations. In 2012, revenue from coal sales to the captive power stations totalled $77 million, compared to $49 million in the prior year.

EBITDA (excluding special items)

Kazakhmys Mining's EBITDA decreased by 36% to $1,160 million, as revenues declined by 5% and total cash operating costs rose by 26%.

The Mining Division's cost of sales, excluding depreciation and MET, was higher in 2012. The 12% increase in ore extraction and processing volumes required the usage of additional input materials such as explosives, diesel, tyres and reagents. Prices for key input materials were above 2011 levels but cost inflation was at a more muted rate than in the previous year.

Operational employee costs rose by 35% in 2012, which includes the full year impact of pay awards made to staff in April 2011, as certain categories of workers were moved to a collective pay rate consistent across the Mining Division. The Mining Division's wage structure was also revised in the second quarter of 2012 to recognise workers' skills and experience which resulted in significant salary awards. Demand for skilled and mobile labour in Kazakhstan and the wider natural resources sector in the CIS remained strong throughout 2012 which also put pressure on wage rates.

Inflationary pressures within Kazakhstan were reflected in the increased cost of services and goods provided by third party suppliers. The cost of ore haulage services, which has been largely outsourced to third parties, were higher in 2012 driven by increased railway and auto-transportation tariffs and with the greater volume of ore transported mainly due to the Akbastau mine operating for a full year. Ore from the Akbastau mine is transported 220 km by road to the Karagaily concentrator for processing and the economics of constructing an on-site concentrator are being evaluated.

Repair and maintenance expenditure increased in 2012 with the additional ore volumes processed and inflationary pressures on the costs associated with maintaining underground mining and processing equipment. Utility costs charged to the Mining Division also increased as the tariffs charged by the captive power stations for electricity rose by 23%.

The Mining Division's cost of sales in 2012 includes the expenditure incurred in the prior year for the production of 69 koz of gold bar inventory that was sold in the current period. This impact was partially offset by the larger build-up of copper finished goods inventory in 2012.

Selling and distribution costs were consistent with the previous year as higher transportation rates and port charges were mitigated by lower copper cathode and rod sales volumes.

The Mining Division's administration costs, excluding depreciation and special items, were above the prior year. Pay awards were made to administration staff to align their wages and salaries with the local market. This was partially offset by a reduction in social responsibility costs.

The Mining Division's results for the current period also include the release of a provision of $38 million which was recognised in 2011 in respect of environmental levies that the tax authorities were seeking to apply on some of the Group's operations. The provision was released following a favourable court ruling for Kazakhmys and has been credited evenly between cost of sales and administration costs.

During the year, the Group's disability benefits obligation was reassessed to reflect the pay awards made to staff during 2012. The non-cash component of the disability benefits obligation has been excluded from EBITDA and administration costs. Further details can be found in the Financial Review.

Year on year, the average US dollar to tenge rate rose by 2% with an average rate of 149.11 KZT/$ in 2012 compared to a rate of 146.62 KZT/$ in 2011. The depreciation in the average value of the tenge against the US dollar in 2012 marginally reduced the tenge denominated costs such as labour, local services and utilities when stated in US dollar terms.

Cash costs

The gross and net cash cost metrics are used as a measure of the cost efficiency of Kazakhmys Mining's copper production operations and therefore the costs and revenues associated with the Mizek and Central Mukur gold mines are excluded from the calculation. The gross and net cash cost calculations include electricity sourced from the Group's captive power stations at the cost of production.

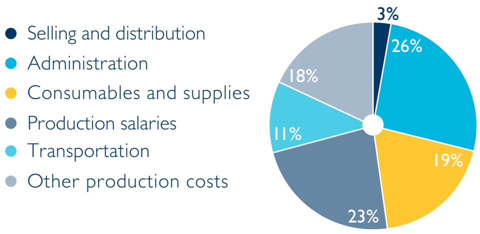
The gross cash cost of copper rose to 333 US cents per pound in 2012, up from 249 US cents per pound in 2011. The rise in the gross cash cost is attributable to the growth in Kazakhmys Mining's operating cost base with an increase in ore extraction volumes, along with higher salary and transportation costs. The 4% reduction in copper cathode and rod sales volumes in 2012 compared to the prior year also negatively impacted cash costs on a per unit basis.

The gross cash cost excludes the actuarial remeasurement charge recognised in the income statement for the disability benefits obligation but includes the cash payments disbursed in the period. The gross cash cost also includes the recognition of charges related to the sale of gold bar inventory produced in 2011. Excluding these gold inventory sales, the gross cash cost would have been 321 US cents per pound in 2012. In 2013, the gross cash cost of copper is expected to increase by between 8% and 12% from this level.

The net cash cost increased to 174 US cents per pound as the impact of higher gross cash costs outlined above on reduced copper sales volumes was only partially offset by improved by-product credits in 2012 with the sale of the gold bar inventory carried over from 2011.

The net cash cost of copper in 2013 will be impacted by Kazakhmys Mining's rising cost base combined with reduced by-product credits mainly due to lower sales volumes of gold.

Kazakhmys Mining cash costs



Sensitivity analysis on prices

Kazakhmys Mining's revenue is significantly influenced by the commodity prices quoted on the LME and LBMA exchanges for copper, zinc, gold and silver. Changes in these commodity prices have a direct effect on the revenues of the Group, which consequentially impact earnings and the net cash cost of copper due to changes in by-product credits.

The approximate effect on the profit before finance items and taxation resulting from a 10% movement in average realised commodity prices is shown in the following table. These sensitivities are based on the 2012 results and assume that all other variables remain constant.

Kazakhmys Mining commodity price sensitivity

	Average realised price during the year ended 31 December		Movement	Impact of 10% movement on profit[1]
	2012	2011	%	$ million
Copper products ($/t)	**8,067**	8,756	(8)%	209
Zinc concentrate ($/t)	**1,022**	1,215	(16)%	12
Silver ($/oz)	**31.3**	35.4	(12)%	38
Gold ($/oz)[2]	**1,667**	1,537	8%	28

1 Profit before finance items and taxation.

2 For sales of gold bars and doré.

Capital expenditure

Sustaining

Capital expenditure was incurred on the annual mining equipment replacement programme and to maintain output at the concentrators, smelters and auxiliary workshops. Funding was allocated for shaft development work to facilitate future extraction at a number of underground mines along with improvements to ventilation systems.

Investments were made into health, safety and environmental protection projects during the year with support equipment purchased to improve working practices. Fire safety enhancements were implemented at a number of facilities and maintenance was conducted on the Balkhash smelter's drainage systems, along with rehabilitating and expanding tailings dams.

The reconstruction of the Nikolayevsky concentrator progressed with orders placed for flotation and milling equipment and design work developed to increase the capacity and recovery rates achieved at the concentrator, which mainly processes ore from the Artemyevsky mine. The reconstruction project at the concentrator is planned to complete in early 2014.

The Konyrat mine and Itauz open pit mines were opened during 2012 to maintain the Mining Division's existing copper cathode production volumes. The recommencement of operations at the Konyrat mine also included increasing the capacity of the Balkhash concentrator to enable the mine to ramp up to its design capacity of 7 MT of ore per year. Work on the Balkhash concentrator is expected to be completed by the second quarter of 2013.

In 2012, the project to re-open the North Nurkazgan open pit mine progressed. This mine contains a mixture of oxide and sulphide ore and is anticipated to have annual copper cathode production of between 3 kt and 6 kt. The oxide ore will be processed at a SX-EW plant to be constructed on-site. In 2012, design work for the plant was developed and construction of the heap leaching pad initiated. The mine is expected to recommence operations in the second half of 2013.

The West Nurkazgan underground mine commenced operations in February 2009. Mine development work has been conducted to give access to new sections of the ore body and the conveyor systems have been upgraded to enhance production volumes. Design work to improve the performance of the concentrator, which will also be utilised by the North Nurkazgan mine, was conducted during the year. The mine is expected to have annual copper cathode production of around 20 kt over its operational life.

A project to process oxide ore at the Shatyrkul deposit is also being developed and the mine is expected to produce around 3 kt of copper cathode annually. Heap leaching of the oxide ore is anticipated to commence in 2013.

The Abyz open pit mine requires reconstruction to extend its operational life by a further five years. Major stripping work has begun on-site and mining equipment has been ordered. In 2013, the supporting infrastructure at the mine will be upgraded to support production from the mine which is expected to operate until 2017, producing around 35 koz of gold bar and 3 kt of copper cathode annually.

In 2013 the Kazakhmys Mining Division's sustaining capital expenditure, including the above mine development projects and concentrator improvements which will require up to $150 million, is expected to be between $450 million and $550 million.

Expansionary

Kazakhmys Mining also has a number of medium-sized mine projects which are progressing through the project assessment stages.

The development of the Akbastau and Kosmurun deposits and on-site concentrator is at the feasibility stage with studies of processing technologies and some basic engineering undertaken in 2012. In 2013, metallurgical testing and infrastructure surveys will be progressed. The initial ore production from the Akbastau open pit mine is expected in 2016, while first output from Kosmurun is expected in 2018.

The project to expand the capacity and operational life of the Zhomart mine moved to the pre-feasibility study stage at the start of 2012. Evaluation of the mining methods based on data from the geological work completed in 2011 and work on the required infrastructure for the mine took place in 2012. Studies on the project and potential early access works will continue in 2013.

Exploration work continued on the project to extend the operational life of the Artemyevsky mine by a further 13 years. The project is currently at the pre-feasibility stage.

The South East Nurkazgan mine development which will benefit from shared infrastructure with the West Nurkazgan mine is at the scoping study stage. During 2012, geological studies were conducted on the deposit to improve resource estimations. Initial studies were undertaken into the processing plant, power supply and mining options for the deposit. The project is expected to move to the pre-feasibility stage in 2013.

In 2013 the Kazakhmys Mining Division's expansionary capital expenditure, excluding Bozymchak, Aktogay and Bozshakol, is expected to be up to $100 million.

Bozymchak

The development of the infrastructure required for the gold-copper deposit, located in Kyrgyzstan, to commence operation progressed during the period. However, due to issues with local contractors and the challenges of operating in Kyrgyzstan, the installation of the processing plant and other key infrastructure ran behind schedule in the first half of 2012.

In the second half of 2012, better progress was made on the project with the appointment of a new contractor to complete the concreting work at the site. Infrastructure such as fuel stations, maintenance workshops and electricity, along with administration and accommodation facilities was either close to completion or completed.

The open pit mine is planned to produce around 1 MT of ore per year. Bozymchak is expected to have an average annual output of 7 kt of copper in concentrate and 35 koz of gold in concentrate over the life of the mine. The initial project development costs, including expenditure to date, are expected to be around $330 million. The first copper and gold concentrate sales from the project are now expected in the last quarter of 2013.

Bozshakol

The Bozshakol sulphide ore deposit is located in the north of Kazakhstan and has a JORC resource of 1,173 MT of ore at a copper grade of 0.35% and a production life of over 40 years, including the processing of stockpiled ore for four years.

In 2011, the Board approved the development of the mine and the associated infrastructure, which is expected to cost in the region of $1.9 billion. The project will be fully funded by the $2.7 billion facility obtained in 2010 from the China Development Bank and Samruk-Kazyna.

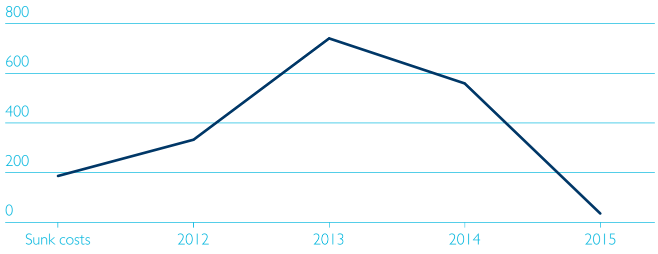
A 25 MT per annum concentrator is being constructed, producing an average of 87 kt of copper in concentrate per annum until 2030, with gold, silver and molybdenum as by-products. A secondary facility, initially handling material containing clay, will operate alongside the main concentrator processing a further 5 MT of ore per annum and contributing 16 kt of copper in concentrate per annum until 2030. The first copper concentrate from Bozshakol is expected to be produced in 2015.

The Bozshakol project has been in development throughout 2012 with Alsim Alarko Sanayi Tesisleri ('Alarko') appointed in August 2011 as the project's EPC contractor. Good progress was made during 2012 on site preparation work and foundations for infrastructure. The laying of concrete foundations for the main process building is in progress and the erection of initial steelwork has commenced.

The excavation work for the grinding plant, concentrator, primary crusher and tailings thickener has been completed and all major plant and mobile equipment has been ordered. Early construction work on telecommunications, water and electricity supply to the site has been completed.

The long-lead items, namely the mills and drive systems, have already been manufactured and are being held in storage until they are required on site in the summer of 2013. The main construction activities on the concentrator and infrastructure for the mine will be conducted during 2013 ahead of the commencement of pre-production mining in 2014. The project is forecast to require capital expenditure of between $700 million and $800 million in 2013.

Bozshakol capital expenditure profile ($ million)



To follow progress at the Bozshakol project visit:
www.kazakhmys.com/en/operations/bozshakol

Aktogay

The Aktogay copper ore deposit is the Group's second major copper project alongside Bozshakol. Following the successful completion of the project's feasibility study in the fourth quarter of 2012, the Board approved the development of the project.

The total construction cost of the project which includes an open pit mine and an on-site concentrator is estimated at $2 billion. The development will be primarily funded from a $1.5 billion project-specific financing facility signed with the China Development Bank in December 2011.

The deposit is located in the east of Kazakhstan and has a measured and indicated oxide resource of 121 MT of ore with a 0.37% copper grade, and a sulphide resource of 1,597 MT of ore with a 0.33% copper grade. The deposit also contains some molybdenum by-product.

The project will initially develop the deposit's oxide resource which is located above the sulphide ore body. The detailed engineering on the SX-EW plant is progressing to schedule and first production from the oxide deposit is expected in 2015. Orders for major components of the SX-EW plant have already been made.

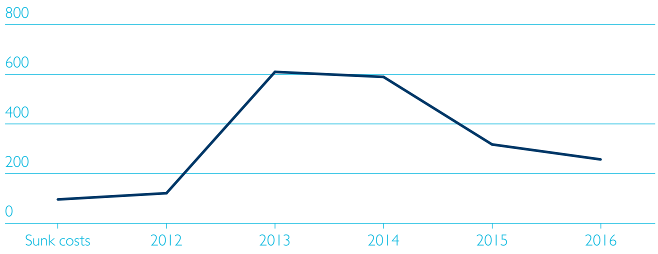
Development of the sulphide plant will be completed in early 2016 with the first ore being processed at the concentrator that year. Detailed engineering of the sulphide concentrator will continue into 2013 and is expected to be completed by the end of 2013. Average annual output will be 72 kt of copper cathode equivalent during a mine life of over 50 years. Copper cathode equivalent production will average 104 kt for the first 10 years.

The development of Aktogay's sulphide resource will benefit from the work conducted on the Bozshakol project due to the similarities between the two large scale, relatively low grade, open pit mines. The project also benefits from the infrastructure which has been developed at the site with a power transmission line, railway access and camp accommodation already in place.

Alarko, who is the EPC contractor on the Bozshakol project, has also been appointed as Aktogay's EPC contractor for the construction of the processing plant. Some initial equipment orders for long-lead items were made in the fourth quarter of 2012, following a similar strategy adopted for Bozshakol.

In 2013, design engineering will continue on infrastructure required to support the mine's operations including water, railway and electricity supply. Construction equipment will be ordered and delivered to the site and initial earthworks at the site are expected to commence. The project is forecast to require capital expenditure of between $550 million and $650 million in 2013.

Aktogay capital expenditure profile ($ million)



To follow progress at the Aktogay project visit:
www.kazakhmys.com/en/operations/aktogay

Kazakhmys Power

Review of Kazakhmys Power

Kazakhmys Power includes the Group's three captive heat and power stations and Ekibastuz GRES-1, in which Kazakhmys has a 50% interest.

The Ekibastuz GRES-1 coal-fired power station currently has a generation capacity of 3,000 MW and a modernisation programme is in progress to return the power station to its nameplate capacity of 4,000 MW. The electricity generated by Ekibastuz GRES-1 is sold to third parties predominantly based in Kazakhstan, with the remaining output exported to Russia.

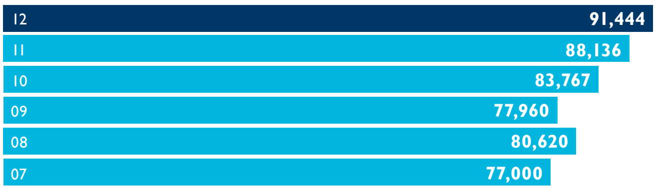
The Group's three captive power stations are located in Karaganda, Balkhash and Zhezkazgan and have a combined nameplate capacity of 1,025 MW and mainly support the Group's operations. The captive power stations sold around 40% of the net power generated to third parties in 2012.

Market overview

Demand

Kazakhstan's economy grew in 2012, supported by the strength of oil and other commodity prices, particularly in the first half of the year. Gross domestic product is forecast to have increased by around 5% in 2012, resulting in further demand for power. Domestic power consumption is estimated to have been 91,444 GWh in 2012, 4% higher than the prior year. In 2013, Kazakhstan's domestic power consumption is forecast to grow at a similar rate to 2012, supported by an expected 8% increase in industrial production.

Kazakhstan domestic power consumption (GWh)



Source: KEGOC

Supply

Generation volumes in Kazakhstan grew by 5% to 90,247 GWh in 2012 to meet the higher electricity demand from the domestic market. The incremental supply came from existing producers. The shortfall between domestic electricity generation and consumption volumes in Kazakhstan was mainly satisfied by additional output from the hydro power stations in Kyrgyzstan, which usually supply power to the south of Kazakhstan from March to September, depending upon the extent of the flood season. No major additional generation capacity is expected to be available in Kazakhstan in 2013.

Ekibastuz GRES-1 increased sales volumes by 1,660 GWh, or 13%, compared to the prior year due to the demand growth. As there were higher tariffs available and ready demand in Kazakhstan, a large proportion of the electricity volumes previously distributed to Russia were instead sold locally. As a result, domestic sales volumes grew by 19% or 2,150 GWh and sales volumes to Russia were 490 GWh lower than in the prior year.

The electricity sales volumes from the captive power stations in 2012 were in line with the prior year.

The captive power stations' share of Kazakhstan's generation market was 7.1% in 2012, below the 7.5% in the prior year, as generation volumes at the stations remained flat while overall generation volumes in Kazakhstan increased.

The Kazakhmys Power Division's combined gross electricity generation volumes of 21,605 GWh in 2012 represented 24% of Kazakhstan's gross power generation, an increase from 23% in 2011.

Tariffs

To encourage investment in the power sector, the Kazakhstan Government introduced a tariff regime in 2009 under which a ceiling tariff was set for each group of generators from 2009 to 2015, subject to minimum levels of capital investment being met. Ekibastuz GRES-1 received approval for a ceiling tariff of 6.50 KZT/kWh from April 2012, a 16% increase from the ceiling tariff applicable in 2011 and the first quarter of 2012 of 5.60 KZT/kWh. The Kazakhstan tariff ceiling applicable to Ekibastuz GRES-1 in 2013 is 7.30 KZT/kWh.

The realised tariff generated from Ekibastuz GRES-1's export sales to Russia was 4.30 KZT/kWh, below the 4.41 KZT/kWh in 2011, predominantly due to the devaluation of the rouble against the tenge.

The captive power stations had a ceiling tariff of 4.55 KZT/kWh approved for 2012, above the ceiling tariff of 3.56 KZT/kWh for external market sales in 2011. Internal sales to the Mining Division were not subject to the ceiling tariff and were made at an average of 4.16 KZT/kWh. In 2013, the ceiling tariff for the captive power stations will be 5.10 KZT/kWh, subject to the captive power stations meeting the investment requirements. It is expected that both internal and external sales in 2013 will be made at this level.

Kazakhmys Power production summary

Ekibastuz GRES-1 production

	2012	2011
Net power generated (GWh)	**14,368**	12,697
Net power generated attributable to Kazakhmys[1] (GWh)	**7,184**	6,349
Net dependable capacity (MW)	**2,287**	2,199

[1] Based on the Group's 50% non-controlling interest in Ekibastuz GRES-1.

Net power generated in 2012 by Ekibastuz GRES-1 was 13% above the prior year at 14,368 GWh. The growth in net generation volumes was due to strong demand in Kazakhstan with Ekibastuz GRES-1 being capacity constrained at times during the year. Generation volumes in the second half of the year were supported by the ongoing commissioning of Unit 8 following its rehabilitation, adding 500 MW of capacity to the power station by the year end.

The power station's optimisation and modernisation programme continued in 2012 and technical improvements were made to increase the efficiency of the five operating units. The programme to install ESPs on all the turbines progressed with three ESPs installed during the year, thereby reducing emissions and also raising the station's net dependable capacity. There are now four units which have new ESPs installed. As Unit 8 was only officially commissioned at the end of the year, it had a minimal impact on the reported net dependable capacity.

In 2013, Ekibastuz GRES-1 generation volumes are expected to increase by up to 5% with a full year of production from Unit 8 and with rising demand for electricity in the region.

Captive Power Stations production

	2012	2011
Net power generated (GWh)	**5,562**	5,578
Net dependable capacity (MW)	**854**	857

Net power generated at the captive power stations during 2012 was in line with the prior year. In 2011, output was impacted by unscheduled outages at three turbines, and in the current year, extensive maintenance work was conducted on the Karaganda power station.

The Mining Division was supplied with 3,464 GWh of the net power generated in 2012, an increase of 8% on the prior year usage of 3,197 GWh. In 2013, the captive power stations' generation volumes are expected to be at a similar level as they currently operate at close to their maximum capacity.

Kazakhmys Power financial summary

The financial results for Ekibastuz GRES-1 and the captive power stations are discussed separately below:

Ekibastuz GRES-1

$ million (unless otherwise stated)	2012	2011
Sales revenues	**290**	258
Electricity generation[1]	**290**	233
Coal[2]	**–**	25
Average tariff (KZT/kWh)	**6.01**	5.38
Domestic sales	**6.11**	5.48
Export sales	**4.30**	4.41
Average cash cost (KZT/kWh)	**2.03**	1.82
EBITDA (excluding special items)[1,2]	**189**	162
Capital expenditure[1,2]	**162**	101
Sustaining	**90**	23
Expansionary	**72**	78

[1] Represents 50% of Ekibastuz GRES-1's results.

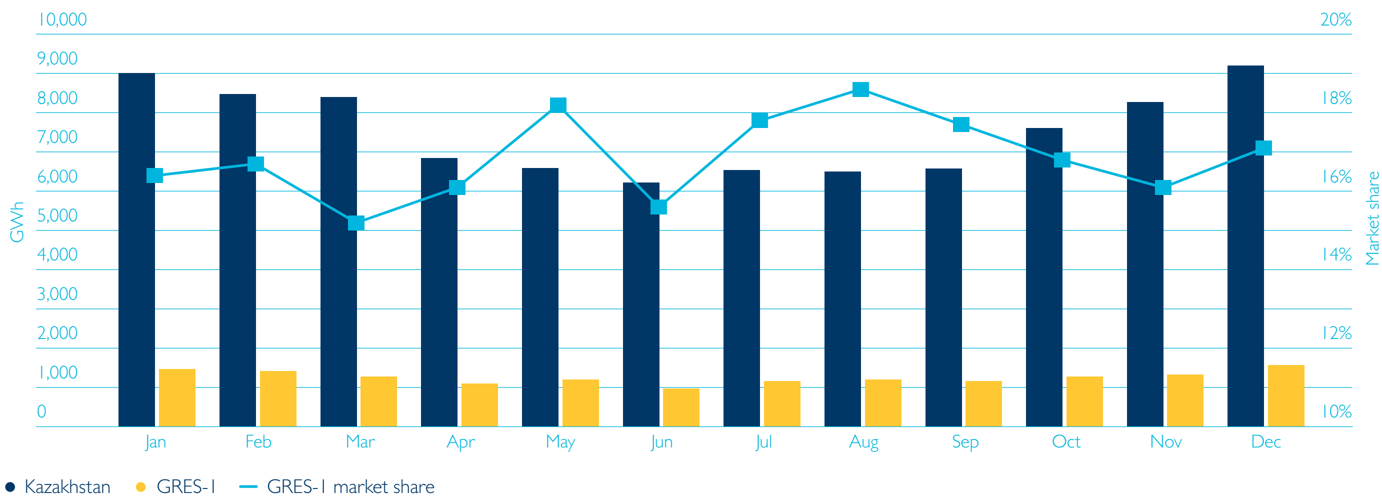
[2] Represents 100% of Maikuben West coal mine's results until 17 May 2011.

Revenues

Electricity generation revenues at Ekibastuz GRES-1 rose by 24% compared to the prior year due to a combination of 13% higher sales volumes and as the weighted average realised tariff grew by 12%. Ekibastuz GRES-1 sells the majority of its production under annual contracts to its customer base of industrial users, traders and electricity wholesalers.

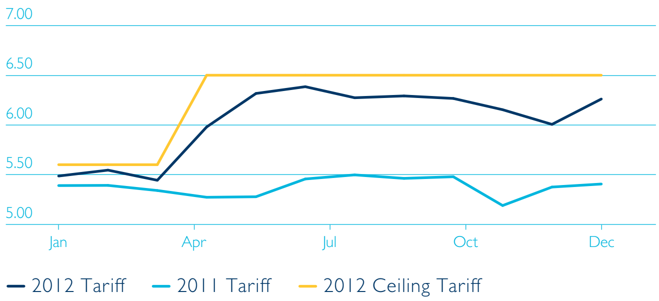
Due to the continued growth in electricity demand in Kazakhstan, Ekibastuz GRES-1 was able to make domestic sales at an average tariff of 6.11 KZT/kWh, close to the ceiling tariff throughout 2012.

GRES-1 share in Kazakhstan power generation 2012



Source: KEGOC

Ekibastuz GRES-1: Weighted average electricity tariffs (KZT/kWh)



Russian sales were made at an average tariff of 4.30 KZT/kWh, below the tariffs realised on domestic sales due to the lower prices in that market, and also as the Russian tariffs, in tenge terms, were impacted by the devaluation of the rouble against the tenge.

In the prior year, the coal revenues represent sales by the Maikuben West coal mine until its disposal on 17 May 2011.

EBITDA (excluding special items)

Ekibastuz GRES-1's EBITDA was 22% above 2011 due to the 24% growth in electricity sales revenues, whilst total cash operating costs increased by 22%. Within EBITDA, total cash operating costs were driven higher as expenditure on coal, which comprises more than 50% of Ekibastuz GRES-1's cash costs, rose by 11%. The higher generation volumes led to increased coal consumption. Coal prices, which include transport costs, also rose by 9% from April 2012. Ekibastuz GRES-1 purchases over 90% of its coal requirements from the Bogatyr coal mine, which is located 25 km to the east of the power station, and is 50% owned by Samruk-Kazyna, thereby securing certainty of supply.

The consumption of mazut by the power station rose during the commissioning phase of Unit 8 when the start-ups for testing work were fuelled by mazut. The volume of maintenance work conducted during the year increased to maintain the higher utilisation of the power station.

Employee remuneration rose by 23% following inflationary pay awards made in January 2012, and bonuses were awarded to staff following the strong performance of the power station and the successful commissioning of Unit 8. Headcount at the station also rose with the commissioning of Unit 8 and with the ongoing project to rehabilitate Unit 2. Administration costs, excluding depreciation and employee costs, were 9% above 2011 reflecting an increase in social responsibility costs.

Cash cost

The 22% increase in total cash operating costs at Ekibastuz GRES-1 was partially offset by the growth in generation volumes, resulting in the average cash cost rising by only 11% from the prior year to 2.03 KZT/kWh. The per unit cash cost increase is due to the price rise for coal in April 2012, the rise in employee remuneration and higher administrative expenses.

In 2013, the average cash cost is expected to increase by 5% to 10% with cost inflation for key input materials and regulatory charges, partially mitigated by higher generation volumes.

Capital expenditure

Sustaining

Ekibastuz GRES-1 runs a cyclical maintenance programme for the six 500 MW units operating at the power station. As part of this programme, Unit 4 was overhauled in 2012, thereby extending the unit's operating life by another five years after which a further overhaul will be required. The overhaul included maintenance of the turbine, boiler, auxiliary equipment and the replacement of the control system. Work commenced in 2012 on a major overhaul of Unit 7 which will be completed in 2013. In 2013, Unit 3 will also undergo a major overhaul to modernise and extend the operational life of the unit.

Annual maintenance was conducted in 2012 on Units 3, 5, and 6 which required shorter-term outages. Maintenance is usually planned to coincide with the summer period when demand levels are lower. Other projects conducted in 2012 included the reconstruction of the ash disposal system, replacing infrastructure at the power station which has been operating for 35 years and the upgrade of the water treatment system.

Expansionary

Ekibastuz GRES-1 has been undergoing a major expansion programme to restore the power station to its nameplate capacity of 4,000 MW by rehabilitating the three units which were dormant when Kazakhmys acquired the business in 2008. The rehabilitation of the first of the dormant units, Unit 8, commenced in 2009 and completed on time and on budget in the second half of 2012. During the year, parts for the unit's boiler, turbine and auxiliary equipment were installed and the control and safety systems were modernised.

The rehabilitation of Unit 2 which started in late 2010 continued in 2012. During the year, large parts of the dormant unit were dismantled and the turbine and generator required for the unit have been manufactured. The capital project is more extensive than that for Unit 8, as most of its parts were cannibalised for other units after it was shut down in 1995. The rehabilitation of the unit remains on schedule to complete in late 2014.

As the outlook for power in Kazakhstan remained positive in 2012, Ekibastuz GRES-1 announced that it would be proceeding with rehabilitation of the final dormant unit, Unit 1.

To improve the environmental footprint of the power station, Ekibastuz GRES-1 is implementing a programme to install ESPs to the plant's generators to reduce ash emissions to international benchmark standards. Under this programme of work, an ESP was successfully commissioned for Unit 5 in September 2010 and Unit 6's ESP was installed in the second half of 2012, along with the ESP for Unit 8.

The installation of an ESP at Unit 4 has been brought forward by 12 months and it was connected to the unit in 2012 instead of 2013. Dismantling work for the installation of ESPs at Units 3 and 7 is ongoing with the ESPs expected to be operational in the second half of 2013.

In 2013 capital expenditure at Ekibastuz GRES-1 is expected to be between $330 million and $370 million.

Captive Power Stations

$ million (unless otherwise stated)	2012	2011
Sales revenues	**169**	168
Electricity generation	**154**	131
Heat and other	**15**	37
Average realised electricity tariff (KZT/kWh)	**4.19**	3.42
Third party sales	**4.23**	3.50
Intercompany sales	**4.16**	3.37
Average cash cost (KZT/kWh)	**3.33**	2.76
EBITDA (excluding special items)	**19**	14
Capital expenditure (sustaining)	**47**	37

Revenues
An increase in the weighted average realised electricity tariff to 4.19 KZT/kWh resulted in a $23 million growth in electricity sales revenues in 2012. The third party tariff increase reflects the approval of the 2012 ceiling tariff of 4.55 KZT/kWh. The increase in the intercompany tariff is largely due to changes in the cost of generation at the Balkhash and Zhezkazgan power stations. During the year, management of the Satpayev boiler, from which heat sales to municipalities are made, was transferred out of the captive power stations and has been included in the results of the Mining Division. Heat sales made directly from the three captive stations were $15 million, compared to $37 million in 2011 that includes the Satpayev boiler.

EBITDA (excluding special items)
Excluding the Satpayev boiler, total cash operating costs rose by 14% in 2012, below the rate at which revenues increased. Overall, the captive power stations reported an EBITDA of $19 million, $5 million higher than in 2011 due to the stations' higher profitability.

Expenditure on coal rose as the price of coal supplied by the Borly coal mines, included within Kazakhmys Mining, increased. The higher coal prices were partially offset by reduced consumption levels as the captive power stations improved their efficiency. Additionally, in the prior year, mazut had been used to restart turbines following outages, however in 2012 improved operations led to mazut consumption being reduced by 41%. Employee costs at the captive power stations were higher in 2012 with inflation linked pay increases.

Cash costs
The average cash cost for electricity generation from the captive power stations rose by 21% to 3.33 KZT/kWh compared to 2.76 KZT/kWh in 2011. The rise in the average cost of electricity generation is due to cost inflation for key inputs in the generation process such as coal and fuel, along with employee costs, whilst sales volumes remained flat.

The relatively high cash cost per kWh of the captive power stations compared to Ekibastuz GRES-1 reflects the smaller size of the Balkhash and Zhezkazgan power stations, and the age of the equipment employed at the captive power stations.

Capital expenditure
Prepayments were made in 2012 to acquire three replacement turbines to be installed at Zhezkazgan, Balkhash and Karaganda power stations in 2013. A second-hand turbine was also acquired which will be used for spare parts.

Capital expenditure was invested for the maintenance of the existing boilers and turbines, in particular at the Balkhash and Zhezkazgan power stations, in order to sustain the heat and power plants' existing capacity. In 2013, capital expenditure on the captive power stations is expected to be between $70 million and $90 million.

Other businesses

Review of MKM
MKM is a downstream copper business, which produces and sells copper and copper alloy semi-finished products. Based in Germany, the business is structured in three sections: wire products, flat products and tubes and bars. Kazakhmys previously determined that MKM was not a core business as it was inconsistent with the Group's geographic and strategic focus and classified it as 'held for sale'. At the 2012 year end, the business remains classified as 'held for sale'.

MKM financial summary

$ million (unless otherwise stated)	2012	2011
GVA[1] (€ million)	**161**	162
Wire section (€ million)	**36**	38
Flat section (€ million)	**82**	80
Tubes and bars (€ million)	**43**	44
EBITDA (excluding special items)	**48**	26
Capital expenditure	**11**	16
Sustaining	**9**	12
Expansionary	**2**	4

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

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

MKM's performance in 2012 was impacted by continued economic weakness in a number of European countries, particularly in the second half of the year. GVA was broadly maintained at the prior year level as sales volumes to Germany, MKM's core market, grew and as eastern European and North American sales were successfully expanded.

Within the product groups, the wire section reported wire rod sales volumes almost 9% above the prior year, however due to the focus on raising the proportion of tolling business to control working capital, GVA per tonne was lower. Sales of drawn wire were disappointing due to lower demand from automotive and solar energy manufacturing, which led to the wire section's overall GVA being below the prior year.

The flat section, which represents 51% of GVA, had a strong year as MKM attracted new business for pre-rolled strip, sheets from strips and roofing. Sales of pre-rolled strip increased by 90% in volume, and whilst the GVA per tonne reduced, the additional volumes led to a 71% rise in GVA. The GVA from tubes and bars fell slightly due to weaker demand for industrial tubes, most noticeably in the second half of 2012.

EBITDA (excluding special items)

EBITDA was $48 million, $22 million above the prior year. Costs increased in 2012, with labour costs rising in accordance with union agreements, but other costs remaining broadly consistent with the prior year. Copper price movements are reflected through the IFRS inventory adjustment which had a positive impact on EBITDA of $10 million in 2012, compared to a charge of $14 million in the prior year. Excluding the impact of the IFRS inventory adjustment and expressed in Euros to better reflect underlying performance, MKM's EBITDA was €28 million, in line with the prior year.

Capital expenditure

Capital expenditure in 2012 was $11 million as MKM invested to maintain its production equipment. The principal investments were made in the flat section. The capital expenditure was below 2011 which included a higher level of sustaining capital expenditure on the wire rod line following outages during the year.

Review of ENRC

Kazakhmys has a 26% interest in ENRC PLC, a diversified natural resources group with significant operations in Kazakhstan and Africa. The Group's investment in ENRC had a market value as at 31 December 2012 of $1,546 million and dividends of $59 million were received in 2012. ENRC's EBITDA (excluding special items) was $2,106 million for 2012 which was 43% below the prior year as revenues declined by 18% with lower product prices and a 6% rise in total cash operating costs, predominantly due to input material and salary inflation and an increase in exploration works.

ENRC's vertically integrated business is structured into six key operating divisions.

ENRC divisional EBITDA (excluding special items)[1]

$ million	2012	2011
Ferroalloys	**1,006**	1,342
Iron ore	**831**	1,619
Alumina and aluminium	**53**	347
Other non-ferrous	**(107)**	74
Energy	**421**	360
Logistics	**78**	95
Corporate	**(176)**	(122)
ENRC Group	**2,106**	3,715
Kazakhmys' share of EBITDA (excluding special items) of ENRC	**548**	966

[1] The 2012 results for ENRC are unaudited. The EBITDA figure excludes MET.

The Ferroalloys Division operates chrome ore and manganese mines along with processing plants which produce ferroalloys. In 2012, the division's production volumes were close to full capacity. EBITDA was 25% below the prior year with a 15% decline in revenue due to lower ferrochrome and chrome ore prices and with a reduction in sales volumes mainly related to the exclusion of the ferrochrome processing activities of Xinjiang Tuoli ENRC Taihang Chrome Co. Ltd after ENRC reduced its ownership interest in the processing plant. Total cash operating costs within the division decreased by 7% with the lower sales volumes offsetting higher electricity costs, repair costs and salary inflation.

The Iron Ore Division mines and processes iron ore into concentrate and pellets for sale. Production from the division was close to full capacity in 2012. The division's revenue declined by 25% with weaker demand reflected in the lower realised prices for iron ore concentrate and pellets. In 2012, total cash operating costs rose by 20% reflecting rising input material costs, wage inflation and higher distribution costs with sales volumes moved from Russia to China, a longer transportation route. These factors placed pressure on operating margins and the division's EBITDA declined by 49% compared to the prior year.

The Alumina and Aluminium Division operates two bauxite mines which feed an alumina refinery and an aluminium smelter which are supported by a captive heat and energy plant. Alumina production was 10% below the prior year as interruptions to the supply of soda ash in the first half of 2012 impacted output volumes. Production of aluminium was at full capacity during 2012. The division recorded an 85% decline in EBITDA in 2012 as the average realised aluminium price fell by 17% along with lower sales volumes and prices for alumina. Total cash operating costs rose by 7% due to higher repair costs and increased consumption of materials, along with input material and salary inflation, partially offset by lower alumina production volumes.

The Other Non-ferrous Division produces and processes copper and cobalt ore and is predominantly based in the Democratic Republic of the Congo and Zambia. Production of copper increased in 2012 with additional capacity at Boss Mining's heap leach operations, while saleable cobalt production decreased due to lower recovery rates and reduced availability of cobalt oxide ore. The division's negative EBITDA of $107 million reflects the lower prices for copper and cobalt, and a 22% rise in total cash operating costs with higher acid and power prices along with increased exploration costs mainly associated with the Mozambique coal project. Distribution and administration costs were also higher reflecting the acquisition of the former First Quantum Minerals Ltd assets.

The Energy Division operates the Vostochny and Shubarkol coal mines and the coal fired power station at Aksu making the division a significant producer of coal and electricity in Kazakhstan. The completion of the acquisition of the Shubarkol coal mine in April 2012 increased coal production volumes, while electricity generation was marginally above the prior year. The division's EBITDA in 2012 rose by 17% benefitting from a 24% increase in revenue as coal prices rose and with the inclusion of the Shubarkol coal mine in the division's results from April 2012. Total cash operating costs were 34% higher in 2012 due to the inclusion of the Shubarkol coal mine as well as salary and input material inflation.

The Logistics Division provides transportation and logistics services to third parties and to ENRC's operations in Kazakhstan. The tonnage transported by train decreased by 5% compared to 2011 mainly as coal shipments to Russia are now being transported by customers. The division's EBITDA in 2012 was below the prior year due to the higher volume of goods transported in rented railcars at a higher cost.

Managing our risks

The significant risks identified by Kazakhmys are those that could materially affect the Group's financial condition, performance, strategy and prospects. These should be carefully considered in conjunction with the cautionary statement set out on page 172. There may be other risks unknown, or currently believed immaterial by the Group, which might become material.

Operational risks

Health and safety

Risk description: Mining is a hazardous industry and failure to adopt and embed health and safety management systems could result in harm to Kazakhmys' employees as well as fines and penalties and damage to the Group's reputation. Fatality levels within the Group are higher than at comparable internationally listed mining companies with 19 fatalities recorded for 2012 (2011: 24).

Impact: Health and safety incidents could lead to a number of adverse consequences, including harm to people, as well as production disruption, reputational damage and financial loss. The Group has a defined benefits obligation of $373 million (2011: $211 million), the majority of which is in respect of long-term disability allowances payable to current and former employees who suffered workplace injuries. The level of disability payments are indexed to current pay rates within the Group.

Action: Kazakhmys recognises that the highest standards of health and safety practices are vital to its success and are a key responsibility of all employees. The Group's policies and procedures in these areas are designed to identify relevant risks and opportunities and provide a clear framework for conducting business. Further details on the measures being taken to improve health and safety practices, including the work of the Group's HSE function, are set out in the Corporate Responsibility Report commencing on page 48.

Business interruption

Risk description: The business of mining, smelting and refining metals and the production of power is resource intensive, and involves a number of risks, including, but not limited to, geological and technological challenges, weather and other natural phenomena such as floods and earthquakes, fires, explosions, equipment failures, delays in supplies and loss of key inputs including electricity, water and coal, which can cause prolonged mine or plant shutdowns or periods of reduced production.

Impact: Any disruption to operational activities could have a negative impact on the Group's profitability and cash flows, and may require the Group to make large unplanned capital expenditures. In addition to revenue losses, long-term business interruption could result in a loss of customers and reputational damage.

Action: Work is being undertaken across the Group, with the support of appropriate in-house and third-party specialists, to address operational risk issues. The Group has a number of initiatives underway to improve equipment availability and reduce outages. The Group is partially protected from the loss of key assets by the availability of geographically diversified mining and concentrating operations, two smelting complexes, the option of selling concentrate to customers and access to multiple power sources. A combined property damage and business interruption catastrophic insurance programme is in place which can provide protection from some of the financial impact of a major incident at the Group's main concentrating, smelting and refining facilities, and power stations.

Assets controlled by third parties and joint ventures

Risk description: Kazakhmys holds a 26% investment in ENRC PLC. The business and financial performance of this investment is not controlled by the Group. Furthermore, the Group is party to a joint venture arrangement in respect of the ownership and management of the Ekibastuz GRES-1 power station. Kazakhmys has also engaged outsourcing companies to manage certain Group assets, principally engaged in the transportation of production materials by road and rail.

Impact: Decisions made by the board of ENRC could have a material impact on the reported earnings of Kazakhmys. The board of ENRC may take actions which are inconsistent with the Group's values and strategies. Furthermore, changes in market or macroeconomic conditions could impact ENRC's cash flows and the valuation of Kazakhmys' investment in ENRC. During 2012, the market value of the investment in ENRC fell by 53% and at 31 December 2012 an impairment charge has been recognised to reduce the carrying value of the investment to the equivalent of £3.75 per share, below the average acquisition cost of £5.75 per share.

The Group's partner in the Ekibastuz GRES-1 joint venture may have business interests inconsistent with those of the Group and may exercise its right to block certain actions. The partner may take actions which are inconsistent with the Group's policies or standards. Outsourcing companies may take actions which are inconsistent with the Group's objectives or operating procedures, including the failure to adequately maintain Kazakhmys' assets.

Action: Kazakhmys monitors the business and financial performance of its 26% investment in ENRC. The Group has the ability to exercise its rights as the single largest shareholder of ENRC and maintains an active dialogue with members of ENRC's board, senior management and major shareholders. The Board continues to monitor strategic options in respect of the Group's investment in ENRC, with the objective of maximising value for all shareholders. Kazakhmys seeks to ensure that the appropriate governance structures are in place to manage the Ekibastuz GRES-1 joint venture in accordance with the Group's business interests and that they are consistent with the Group's policies and standards. Under the terms of the joint venture arrangement, Kazakhmys is entitled to appoint the operational management of the power plant until 2015, overseen by a supervisory board consisting of representatives of both joint venture partners. Kazakhmys actively monitors the performance of its outsourcing companies to ensure they fulfil their contractual obligations.

New projects

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

Impact: Projects may fail to achieve the desired economic returns due to an inability to recover mineral reserves as planned and higher than expected capital and operating costs. Projects may also fail to complete or suffer delays which may reduce future production volumes and result in a financial loss to the Group. A reduction in future production volumes would also increase the cash cost on a per unit basis. A lack of available funding may prevent projects being completed.

Action: Prior to an investment decision being made, certain evaluation activities are performed including, where appropriate, feasibility and other technical studies. Significant projects are subject to the Group's capital appraisal process, including Board review and approval as they progress. There are also a number of planning and monitoring procedures in place addressing the management of capital expenditure. The Group ensures that sufficient expertise, from both in-house and third-party specialists, is utilised on projects throughout their life cycle. For the major projects currently underway, Bozshakol and Aktogay, Kazakhmys has appointed an experienced EPC contractor to manage the construction of the processing plants. The Projects Assurance Committee regularly assesses the operational and financial status of these projects to identify any material risks to their successful commissioning and start-up. In respect of project funding, Kazakhmys has committed financing in place for Bozshakol and Aktogay.

Labour, mining equipment and supplies

Risk description: Commodity price fluctuations can have an impact on industry demand for labour, mining equipment and supplies. In periods of elevated commodity prices competition for skilled personnel intensifies, both internationally and within Kazakhstan, and availability of mining equipment and supplies can be subject to long lead times and cost inflation. The remote location of some of the Group's operations also makes the attraction and retention of skilled staff at these sites more challenging.

Impact: Kazakhmys may suffer shortages of skilled workers and delays in obtaining mining equipment and supplies which limit the Group's ability to operate effectively. Coupled with a decline in grades at the Group's mature mines, inflation of employee costs, mining equipment and supplies increase operating and capital costs which affect the Group's financial performance, and these factors together may impact the economic viability of certain mines and projects. In 2012, the total cash operating costs of Kazakhmys Mining rose by 26%.

Action: The Group actively monitors the market for labour and mining equipment and supplies to remain competitive in the hiring of staff and procurement of mining equipment and supplies. Kazakhmys has an extensive social programme for its employees and their dependents and invests in training facilities and staff development to raise skill levels. To mitigate inflationary pressures the Group has a number of operational efficiency initiatives underway.

Labour and community relations

Risk description: Many of the Group's employees are represented by labour unions under various collective labour agreements. Negotiations of wages may become more difficult in times of higher commodity prices and consequently higher profits in the mining industry, as labour unions may seek wage increases and other forms of additional compensation. In addition, the Group's employees may seek wage increases outside of the collective labour agreements and labour agreements may not prevent a strike or work stoppage.

The Group operates in locations where it is the major employer and may also provide a range of services to the local community such as heat and power. Community expectations are typically complex with the potential for multiple inconsistent stakeholder views that may be difficult to resolve.

Impact: Poor employee relations influenced by internal and external factors could result in an unstable workforce that disrupts operations or seeks above inflation wage increases and other forms of compensation, having a material adverse effect on the Group's financial performance. In 2012, labour costs at Kazakhmys Mining rose by 34% and the future disability benefits obligation within the employee benefits provision, which is linked to current wage rates, has increased by $162 million.

The dependence of certain communities on the Group for employment and the provision of services may impose restrictions on the Group's flexibility in taking certain operating decisions which could have a material adverse effect on the Group's financial position. Services provided to communities may also be loss-making and require capital investment thereby adversely impacting the Group's cash flows. Further details of the Group's social programme are set out in the Corporate Responsibility Report commencing on page 48.

Action: A full engagement strategy with community representatives, unions and employees operates within the Group which aims to address concerns raised by different stakeholders. The Group also has an extensive social programme for its employees and their dependents. The Group is reviewing the services it provides to communities with the objective of raising tariffs where applicable to market rates. The Group works closely with the Government on social matters, which may in the future include the transfer of certain social assets to Government ownership and management.

Political risk

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

Impact: Changes to Kazakhstan's foreign trade (export and import), foreign investments, property, tax, environmental and subsoil use regimes or social responsibility expectations or other changes that affect the supportive business environment in Kazakhstan could negatively affect the Group's business, financial position and performance and decisions on future investments.

Action: The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia. The Government of Kazakhstan has representation on the Board of Kazakhmys and is a significant shareholder in the Group. The Board continues to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remains optimistic about the conditions for business in the region. Kazakhmys maintains a proactive dialogue with the Government of Kazakhstan across a range of issues, including subsoil use regulations, taxation, the environment and social responsibility and community relations.

Reserves and resources

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

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

Action: The Group's ore reserves and mineral resources are published in accordance with the criteria of the JORC Code and can be found on pages 162 to 166. Kazakhmys engages the services of independent technical experts to annually convert reserve and resource calculations for operating mines and development projects from the in-house method established by the former Soviet Union to the method prescribed by the JORC Code. The Group's reserves and resources were last audited in 2010 by an independent technical expert. A project is ongoing to digitise selected mines' reserves which will be used in the future for determining estimates of reserves and resources and to support improved estimation of ore grades and mine planning.

Compliance risks

Subsoil use rights

Risk description: In Kazakhstan and certain other countries in which the Group operates, all subsoil reserves belong to the State. Subsoil use rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. Rights may be terminated if the Group does not satisfy its licensing or contractual obligations, which may include financial commitments to State authorities and the satisfaction of mining, development, environmental, social, health and safety requirements. In recent years, legislation relating to subsoil use rights has come into force in Kazakhstan, which sets out stricter requirements on the performance of licence obligations, technical documentation, work programmes and the level of goods and services sourced from Kazakhstan. The authorities have also increased their monitoring of compliance with legislation and subsoil use contract requirements.

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

Action: The Group's management makes every effort to engage with the relevant regulatory authorities and ensure compliance with all relevant legislation and subsoil use contracts. The Group's procedures to ensure compliance with the terms of subsoil contracts have been updated to reflect the requirements of the new legislation, including more active procurement of goods and services from Kazakhstan. In 2012, 63% of goods and services used by the Mining Division were sourced from Kazakhstan. A specialist department is also tasked with monitoring compliance with the terms of the subsoil use contracts.

Environmental compliance

Risk description: The Group operates in an industry that is subject to numerous environmental laws and regulations. As regulatory standards and requirements continually develop, the Group may be exposed to increased compliance costs and environmental emission charges. Policies and measures at a national and international level to tackle climate change will increasingly affect the business, thereby presenting greater environmental and regulatory risks.

Impact: A violation of environmental laws, or failure to comply with the instructions of the relevant authorities, could lead to the suspension of operating licences, challenges to subsoil use mining rights, fines and penalties, the imposition of costly compliance procedures, reputational damage and financial loss. New or amended environmental legislation or regulations may result in increased operating costs, additional capital investment or, in the event of the Group's non-compliance, the possibility of fines, penalties or other actions which may adversely affect the Group's financial performance and reputation. Emissions charges in Kazakhstan have been increased over recent years and the authorities are adopting an increasingly robust stance on compliance with environmental standards.

Action: The Group has policies and procedures in place which set out the required operating standards for all employees. Kazakhmys monitors its emissions and in recent years has invested in reducing its environmental emissions. The Group liaises with the relevant governmental bodies on environmental matters, including the development of new legislation. Further details of the environmental measures being taken by the Group are set out in the Corporate Responsibility Report commencing on page 48.

Financial risks

Commodity prices

Risk description: The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international global metal exchanges. The Group's financial results are strongly influenced by commodity prices which are dependent on a number of factors, including world supply and demand and investor sentiment. In particular, Kazakhmys is exposed to demand from China as described below, a major consumer of the metals which the Group produces. Due to these factors, commodity prices may be subject to significant fluctuations, which could have a positive or negative impact on the Group's financial results.

Impact: Commodity prices can fluctuate widely and could have a material impact on the Group's asset values, revenues, earnings, cash flows and growth prospects.

Action: The Group keeps under regular review its sensitivity to fluctuations in commodity prices. The Group does not as a matter of course hedge commodity prices, but may enter into a hedge programme for certain commodities where the Board determines it is in the Group's interest to provide greater certainty over future cash flows. The Group adopts a prudent approach in its financial planning and investment appraisal, reflecting the volatility in commodity prices.

Exposure to China

Risk description: In addition to the impact of Chinese demand on the pricing of Kazakhmys' major products, as noted under the Commodity Prices risk above, the Group makes significant physical sales to a limited number of customers in China. Over the past five years, sales to China have represented an average of 45% of Kazakhmys Mining's revenues. The proportion of sales into China is likely to increase in the future when production commences from the two major growth projects, Bozshakol and Aktogay. China is also an important source of financing to the Group with long-term debt facilities secured totalling $4.2 billion, primarily for the development of Bozshakol and Aktogay.

Impact: Changes to China's fiscal or regulatory regimes or lower Chinese copper consumption could reduce demand in China for the Group's major products, leading the Group to direct a greater volume of sales to its other major market, Europe. Changes to Chinese government policy on credit or cross border lending may affect the availability of Chinese bank lending to the Group.

Action: The Group continues to sell a significant volume of its copper production into Europe, where it maintains long-term customer relationships, as well as into China, thereby taking advantage of its geographic position which provides access to both major markets. In the event that demand reduced in China for the Group's products, Kazakhmys would continue to allocate its sales between the two markets to obtain the best commercial terms. The financing line for Bozshakol has been drawn and the Aktogay loan agreement is a committed loan facility, thereby providing greater certainty over the funding of the Group's growth projects. Kazakhmys also maintains relationships with a number of international lending banks, having secured a $1 billion pre-export finance facility in December 2012, and has the flexibility to consider other sources of capital such as the bond or equity markets, if so required.

Acquisitions and divestments

Risk description: In the course of delivering its strategy, the Group may acquire or dispose of assets or businesses. Corporate transactions may, however, fail to achieve the expected benefit or value to the Group.

Impact: Changing market conditions, incorrect assumptions or deficiencies in due diligence processes could result in acquisitions failing to deliver the expected benefit or value to the Group, leading to adverse financial performance and failure to meet expectations. Acquisitions could also lead to the Group assuming liability for the past acts of acquired businesses, without recourse to other parties. The disposal of assets or businesses may not achieve the expected proceeds due to changing market conditions or deficiencies in the sales process.

Action: Specialised staff are assigned to manage corporate transactions, supported where appropriate by external advisors. Due diligence processes are undertaken on acquisitions and material transactions are subject to Board review and approval, including ensuring the transaction is aligned with the Group's strategy, consideration of the key assumptions being applied and the risks identified.

Liquidity risk

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

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

Action: The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group's financial position, cash flows and future capital commitments. Kazakhmys adopts a prudent approach in managing its liquidity risk, reflecting the volatility in commodity prices. The Group has secured committed funding for Bozshakol and Aktogay. A $1 billion pre-export finance facility was secured in December 2012 for general corporate purposes and to provide additional liquidity during the development of the major projects. Further details are set out in the Financial Review on pages 86 and 87.

Taxation

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

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

Action: The Group makes every effort to comply with existing tax legislation, and works closely with the Government and tax authorities in the review of proposed amendments to tax legislation and regulation. Further details of the Group's tax strategy and risk management are set out in the Financial Review on pages 87 and 88.

Corporate Responsibility

This section reports significant activities in 2012 to address our most material corporate responsibility (CR) issues. There is more information about our overall approach to managing CR on our website at www.kazakhmys.com/corporate_responsibility. Performance against our CR KPIs is reported on pages 18 and 19.

Health & safety

In 2012, we continued to standardise our approach to health and safety and improve management systems. Our long-term goal is zero fatalities, which is a challenging target but one we are determined to achieve.

We are focusing on building a safety culture by changing ways of working and improving risk awareness throughout our business. At the heart of this is a long-term, Group-wide education and training scheme, launched in March 2012. We also introduced initiatives to improve procedures in six areas: roof collapse, contact with energy sources, ventilation, personal protective equipment, training and skills, and pedestrian safety. We continued to implement 36 Group health and safety standards and to make significant investment in modernising our equipment to ensure our employees are provided with a safe working environment.

In 2012 we completed the first phase of our work with external consultants DuPont who helped us to develop and implement core Health and Safety standards and procedures. We acknowledge a lot of work is still required to bring our approach to international best practice level and will continue working closely with DuPont in 2013.

The Board deeply regrets that 15 employees and four contractors died at our managed mining operations in 2012. Rock falls were the most common cause. In response, we continue to change our working practices and introduce new equipment and roof safety technologies to improve our performance.

Regrettably we did not meet our goal to reduce total safety incidents (including fatalities, serious and minor injuries and micro traumas) by 20% in 2012, compared with 2011. Our Health and Safety awareness programme encourages employees to report incidents and injuries and we have seen a 16% increase in reported safety incidents from 254* in 2011 to 295 in 2012. This figure may continue to increase as we develop a stronger safety culture at our operations.

* The 2011 figure has been restated to include retrospective reporting of injuries by our employees.

Environment

We carefully manage our environmental impacts by using energy and water efficiently, by protecting biodiversity, and by reducing greenhouse gas emissions (GHG), waste and emissions to air.

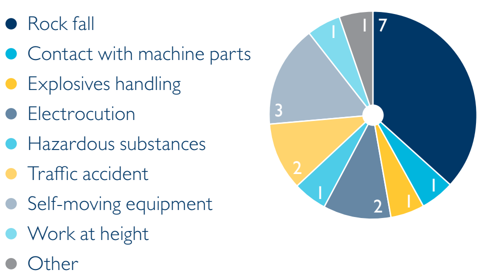
Energy use and greenhouse gas emissions

In 2012, we continued to prepare for the Kazakhstan GHG emissions trading scheme by developing a Group-wide energy efficiency programme. In September 2012, we finalised energy saving plans for the smelters and captive power plants that the scheme will impact. The Group has agreed to take part in an additional Government initiative to develop a nationwide energy efficiency plan. As part of this initiative, Kazakhmys will seek to reduce its energy use by 25% by 2020, from 2011 levels. A newly formed energy efficiency and investment team is overseeing this effort, working with external contractors on the assessment of current energy use.

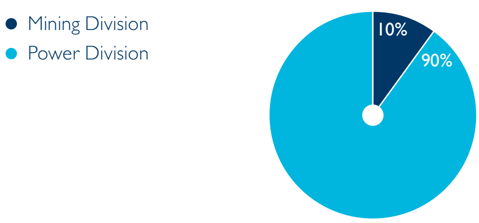
In 2012, energy consumed within the Group's operations was 6,255 GWh, 8% less than in the prior year. In the Mining Division, there was a 12% reduction in energy use to 4,580 GWh compared with 5,218 GWh in 2011. The reduction reflects initial energy saving efforts such as the installation of new equipment as well as improved measurement and increased awareness of electricity consumption levels, as we prepare for the implementation of the energy efficiency programme which is currently being developed. In the Power Division, internal energy use at Ekibastuz GRES-1 increased by 13% to 796 GWh, reflecting increased external demand and the commissioning of a new turbine, while power use at our captive power stations (which supply the Mining Division) remained broadly in line with the prior year at 879 GWh.

Power produced at Ekibastuz GRES-1 is sold to third parties and is not used in copper production. Following the increased demand for electricity in Kazakhstan and the commissioning of the new turbine at Ekibastuz GRES-1, both total gross power generated and sold to third parties increased to 21,605 GWh and 16,466 GWh, respectively. This

Fatalities by cause



CO_2 emissions



increase resulted in a 15% rise in GHG emissions for the Group compared to 2011, from 24.2 million tonnes of carbon dioxide equivalent (CO_2e) to 27.8 million tonnes. Of these emissions, 2.7 million tonnes were generated by the Mining Division and 25.1 million tonnes by the Power Division.

We are aligning the way we report GHG emissions with the UK Government's draft GHG reporting regulations, for example by considering measures of GHG intensity to reflect the very different activities of our Mining and Power Divisions. We look forward to the publication of the final regulations and guidance.

Emissions to air
Our operations produce substantial amounts of sulphur dioxide (SO_2), nitrogen oxides (NO_X), arsenic, ash and dust.

We seek to maintain low levels of SO_2 by capturing emissions from our smelters in Balkhash and Zhezkazgan and transforming the emissions into sulphuric acid. In 2012, SO_2 emissions for the Group totalled 258,877 tonnes, broadly in line with 261,587 tonnes produced in 2011. At 103,307 tonnes, the Mining Division produced 16% fewer SO_2 emissions in 2012 than the year before, largely driven by uninterrupted operations at our Balkhash sulphuric acid production plant, which experienced some downtime in 2011, as well as slightly lower copper output.

The launch of the new turbine at Ekibastuz GRES-1 and subsequent increase in power generation resulted in higher NO_X emissions for our Power Division, where we produced 55,246 tonnes of NO_X compared to 46,917 tonnes in the prior year. NO_X output for the Mining Division remained broadly in line with the prior year at 1,378 tonnes.

We achieved a 16% reduction in ash emissions for the Group in 2012, to 121,983 tonnes. The Mining Division produced 3,464 tonnes of ash in 2012, compared to 4,025 tonnes in 2011. The reduction is due to the use of better quality coal at the boilers in Zhezkazgan, as well as installation of new equipment at some of our assets. At 118,519 tonnes, the Power Division achieved a 16% reduction in ash emissions despite a 13% increase in power generated at Ekibastuz GRES-1. This reduction is due to the installation of battery emulsifiers at our captive power plants, as well as the installation of the third electrostatic precipitator at Ekibastuz GRES-1. By 2016, all eight turbines at the power station will be fitted with electrostatic precipitators, which should reduce total ash emissions fivefold compared to 2009 levels, prior to the installation of the first precipitator.

Water
In 2012, the Group used 802,230 megalitres of fresh water, in addition to 2.5 million megalitres of recycled process water. Of the freshwater withdrawn, just 7.4% came from the same water source used by the local community.

Waste
New legislation to reduce waste and control its disposal was introduced in 2012, requiring companies to introduce 10 year waste management plans. In response, we developed guidance for our sites on implementing waste management systems. In 2013, different areas of our business will introduce waste management programmes with the aim of reusing and recycling more waste, as well as disposing of it responsibly.

Employees
A skilled workforce is critical to the future of our business. We are committed to providing training and development opportunities to all our employees, incentivising them to stay and progress within the business.

In 2012, 100 of our most promising employees completed our 'High Potential' programme designed to ensure a succession of future senior management from within the Group. The participants completed three tailored training modules, site visits and individual mentoring sessions with senior managers, which provided them with in-depth understanding of our core business activities.

We also made further progress in establishing an anti-bribery and anti-corruption culture by introducing an e-learning module and rolled out a Speak Up helpline for people to report concerns about unethical practices, and promoted uptake of the helpline through face-to-face meetings, newsletters and posters. Most reports to the helpline to date (39%) were about unfair treatment at work and 9% were concerns about dishonest behaviour.

We seek to employ the majority of our workforce in Kazakhstan locally, using international expertise where necessary to facilitate a transfer of skills and best practice in the longer term. In 2012, 99% of employees within the Mining Division were Kazakhstani nationals. We are pleased to report a continued high level of gender diversity for the mining industry – 36% of our employees in 2012 were women.

Communities
We contribute to Kazakhstan and its communities by creating jobs, paying taxes, investing in community infrastructure, using local suppliers and assisting the development of small and medium-sized businesses in the regions. We respect the rights of anyone that comes into contact with our business, for instance by ensuring good working conditions and consulting with communities.

Our focus in 2012 was on developing diverse economies in the communities that rely most heavily on our business, in Zhezkazgan and Balkhash, as well as strengthening our relationships with local providers of goods and services. In 2012, 67% of our goods and services were sourced locally, which amounted to $1.5 billion, compared to 50% and $785 million in 2011. We support local suppliers and small and medium-sized businesses through a range of initiatives, including the annual forum 'Made in KZ' and regional business associations through which local companies can find new customers and revenue streams, in addition to Kazakhmys. In July 2012 our efforts were recognised with a national award for local content development.

The Mining Division's social investment decreased to $52 million in 2012. Our review of our social activities continued and in 2012 we commenced the transfer of social facilities the Group inherited with its operations. Some of the approximately 200 social assets were signed over in 2012, and the remaining assets will be transferred in the next few years, mainly into Government ownership.

Governance Framework

This section of the Annual Report and Accounts has been prepared in accordance with the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in June 2010 (the 'Code') which applies to the Company's Annual Report and Accounts for the year ended 31 December 2012. However, the Company has taken steps to adopt some of the provisions of the revised edition of the UK Corporate Governance Code (the 'New Code') published by the FRC in September 2012, which applies to the Company's Annual Report and Accounts for the year ended 31 December 2013, earlier than formally required.

UK Corporate Governance Code (the 'Code') compliance

During the year, the Company has complied fully with the provisions of the Code, save in the respect that the Chairman was not independent at the time of his appointment. This arises due to Vladimir Kim's significant shareholding in the Company. Vladimir Kim joined the Group in 1995 and has made a major contribution to its development into an international company. The Board is unanimously of the opinion that his continued involvement with the Company is vitally important to the success of the Group.

Following Vladimir Kim's decision to step down as Chairman at the conclusion of the Company's Annual General Meeting on 17 May 2013 and the appointment of Simon Heale as non-executive Chairman, the Company will from this date comply fully with the provisions of the Code.

Leadership

The Role of the Board

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

The Board is primarily responsible for determining strategic direction and demonstrating leadership; focusing on matters that consistently add value for the shareholders of the Company, both present and future; the governance and stewardship of the Group to provide protection and security for the shareholders' assets; the management of the Group's employees; setting the Group's standards and values, and ensuring that its obligations to shareholders and others are understood and met; and determining the nature and extent of the significant risks the Group is willing to take to achieve its strategic objectives. Another key responsibility of the Board is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

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

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

Matters reserved for the Board

Key matters reserved for the Board include the approval of:

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

Division of Responsibilities

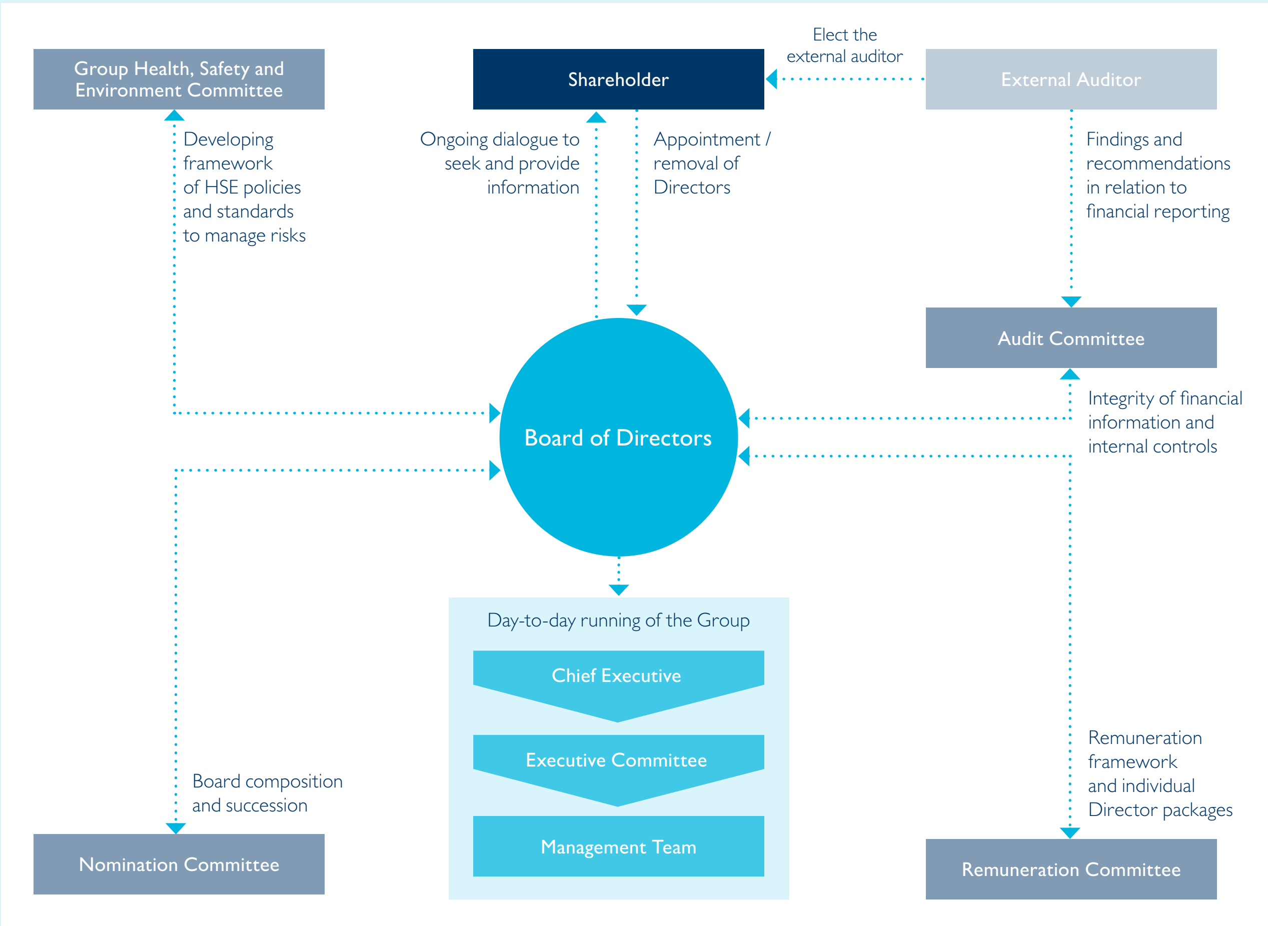
The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

The Chairman is responsible for the strategic direction of the Group, overseeing the responsibilities of management, leadership of the Board and the relationships with the Government and business community in Kazakhstan. Further details of the roles and responsibilities of the Chairman, Chief Executive and Senior Independent Director are set out on page 52.

Non-executive Directors

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

Corporate governance framework



Roles and responsibilities

Chairman

In addition to being a Board member responsible to the Company and shareholders, the key roles and responsibilities of the Chairman include:

- ensuring the creation and maintenance of a safe working environment and a safety-focused culture within the Group's operations;
- promoting the interests of the Company especially with regard to Group planning;
- setting a vision for the Group and formulation of its strategy;
- ensuring the effective operation of the Board and its committees in conformity with the highest standards of corporate governance;
- providing leadership to the Board, setting its agenda, style and tone of meeting discussions to promote open and constructive debate and effective decision making;
- ensuring that shareholders and the Board receive accurate, timely and clear information on all important matters, including Director remuneration, corporate governance and strategic issues;
- ensuring the performance of the Board, its committees and individual Directors is formally evaluated on an annual basis, with an external evaluation being conducted every three years;
- promoting effective and constructive relationships and communications between non-executive Directors and executive Directors and senior management, and holding meetings with the non-executive Directors without the executive Directors being present;
- ensuring effective communication with shareholders and that their views are understood by the Board;
- maintaining effective and constructive relations with the Government and business community in Kazakhstan; and
- maintaining an effective working relationship with the Chief Executive.

Chief Executive

In addition to being a Board member responsible to the Company and shareholders, the key roles and responsibilities of the Chief Executive include:

- leading the management team in the day-to-day running of the Group's business;
- chairing meetings of the Executive Committee;
- developing Group objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- responsibility to the Board for the performance of the business consistent with agreed plans, strategies and policies;
- establishing and maintaining an international organisation that will enable the Group's strategy to be implemented effectively;
- developing through investment and divestment an appropriate asset base for the Group to execute its strategy;
- ensuring at all times the Group conducts its business in accordance with the legal requirements of the countries in which it operates and the Company's standards, if higher;
- ensuring that the Group's operations comply with all relevant health and safety standards and activities are undertaken with special regard for environmental and social concerns in the countries in which the Group operates;
- planning human resourcing to ensure the Company has the capabilities and resources required to achieve its plans;
- establishing a senior management team which has the knowledge, skills, attitude and motivation to achieve the Group's business objectives both now and in the future;
- recommending to the Board an annual budget and medium-term financial and production plan;
- developing and maintaining an effective framework of internal controls over risk in relation to all business activities;
- developing and promoting effective communication with shareholders and other interested parties; and
- ensuring that the flow of information to the Board is accurate, timely and clear.

Senior Independent Director

In addition to being a Board member responsible to the Company and shareholders, the key roles and responsibilities of the Senior Independent Director include:

- acting as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive and Chief Financial Officer. No such matters of concern were raised by shareholders during the year ended 31 December 2012;
- acting as a sounding board for the Chairman and serving as an intermediary for the other Directors when necessary;
- meeting with the non-executive Directors (without the Chairman being present) at least annually and leading the Board in the ongoing monitoring and annual performance evaluation of the Chairman;
- monitoring the training and development requirements of Directors; and
- attending sufficient meetings with a range of major shareholders to develop a balanced understanding of the issues and concerns of major shareholders and reporting the outcome of such meetings at subsequent Board meetings.

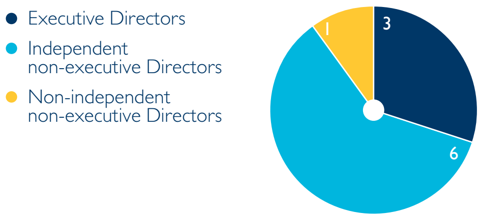
Effectiveness

Composition of the Board

Effective management and good stewardship are led by the Board, which currently consists of 10 Directors, nine of whom served throughout the financial year, with Michael Lynch-Bell having been appointed on 27 February 2013. Including the Chairman, there are three executive Directors, six independent non-executive Directors and one non-independent non-executive Director; this balance ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of the minority shareholders are protected. Biographies of all Directors are set out on pages 20 and 21.

It is Kazakhmys' policy that at least half the Board should be independent non-executive Directors. Other than Daulet Yergozhin, the Board considers each of its current non-executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that each provides objective challenge to management, is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the Company and there are no business or other relationships likely to affect, or could appear to affect, the judgement of Philip Aiken, Clinton Dines, Simon Heale, Michael Lynch-Bell, Lord Renwick and Charles Watson. The Board carries out a review of the independence of its Directors on an annual basis. Daulet Yergozhin is not considered by the Board to be independent from his date of appointment as he is a representative of the Government of Kazakhstan, a major shareholder in the Company.

Board composition



The independent non-executive Directors are:

Philip Aiken

Appointed to the Board: 2006
Nationality: Australian
Skills and experience: Philip Aiken has extensive global experience in the engineering and energy sectors. He was formerly group president of BHP Billiton's energy business, an executive director of BTR plc, held a number of senior positions in BOC Group plc and was a senior advisor to Macquarie Capital (Europe) Limited. Age 64.
Other appointments: Chairman of AVEVA Group plc, senior independent director of Essar Energy plc and a non-executive director of National Grid PLC.
Committee memberships: Chairman of the Group Health, Safety and Environment Committee and a member of the Nomination and Remuneration Committees.

Clinton Dines

Appointed to the Board: 2009
Nationality: Australian
Skills and experience: Clinton Dines has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988, he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, became president, BHP Billiton China, a position from which he retired in 2009 prior to joining Kazakhmys. He brings exceptional knowledge of China combined with global resource industry and management experience. Age 55.
Other appointments: Executive chairman Asia of Caledonia (Private) Investments Pty Limited, a non-executive director of Zanaga Iron Ore Company Limited and a member of the advisory board of Pacific Aluminium.
Committee memberships: Member of the Audit, and Group Health, Safety and Environment Committees.

Simon Heale

Appointed to the Board: 2007
Nationality: British
Skills and experience: Simon Heale has significant global marketing and business operations and management experience having been chief operating officer of Jardine Fleming Limited, deputy managing director of Cathay Pacific Airways and chief executive of The London Metal Exchange. He has also been a non-executive director and chairman of Panmure Gordon & Co plc. Age 59.
Other appointments: Non-executive director of The Morgan Crucible Company plc, Coats plc, Marex Spectron Group Limited and PZ Cussons plc. He is also a trustee and treasurer of Macmillan Cancer Support.
Committee memberships: Chairman of the Audit Committee and a member of the Group Health, Safety and Environment, Nomination and Remuneration Committees.

As announced on 28 February 2013, Simon Heale will replace Vladimir Kim as Chairman at the conclusion of the forthcoming Annual General Meeting.

Michael Lynch-Bell

Appointed to the Board: 27 February 2013
Nationality: British
Skills and experience: Michael Lynch-Bell has extensive experience in the mining, oil and gas industries having spent his whole 38 year career with Ernst & Young developing and later leading its global mining and energy practices. During his time with Ernst & Young, he played a key role in establishing Ernst & Young's practice in Kazakhstan and advised a number of major CIS companies on transactions. He retired as senior partner of their transaction advisory practice for mining and metals and as an elected member of Ernst & Young's global advisory council in June 2012. He continues to act as a senior advisor to Ernst & Young's transaction advisory practice. Age 59.
Other appointments: Board member and treasurer of Action Aid International.
Committee memberships: Member of the Audit Committee.

Lord Renwick of Clifton, KCMG

Appointed to the Board: 2005
Nationality: British
Skills and experience: Lord Renwick has had a diplomatic career spanning over 30 years, including serving as British Ambassador to the United States and to South Africa. He was a non-executive director of BHP Billiton plc, SABMiller plc, British Airways plc, Liberty International plc, Fluor Corporation and Harmony Gold Mining Company Limited. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board. Age 75.
Other appointments: Deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont SA and Bumi plc. He is also vice chairman, Investment Banking of J.P. Morgan Europe and vice chairman of J.P. Morgan Cazenove.
Committee memberships: Chairman of the Remuneration Committee and a member of the Nomination Committee.

Charles Watson

Appointed to the Board: 2011
Nationality: British
Skills and experience: Charles Watson has an extensive background in both operational management and major project delivery, having spent 29 years at Shell. During his time at Shell he held a number of senior executive positions throughout the world, culminating in his appointment as executive vice president covering Russia and the CIS, including oversight of Shell's activities in Kazakhstan, chairman of Shell Russia and chairman of the board of directors for the Sakhalin Energy Investment Company. Age 58.
Other appointments: Non-executive director of Taipan Resources Inc. and JSOC Bashneft.
Committee memberships: Member of the Audit, and Group Health, Safety and Environment Committees.

Commitment

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

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

The attendance of Directors at scheduled meetings of the Board which they were eligible to attend and the number of meetings attended during 2012 is shown below:

Directors during the year	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
Vladimir Kim	5	5
Oleg Novachuk	5	5
Eduard Ogay	5	4
Philip Aiken	5	4
Clinton Dines	5	4
Simon Heale	5	5
Lord Renwick	5	5
Charles Watson	5	5
Daulet Yergozhin	5	3

Eduard Ogay and Clinton Dines missed one Board meeting each due to a conflict in schedules, Philip Aiken missed one Board meeting due to a flight delay and Daulet Yergozhin missed two Board meetings due to a conflict in schedules arising from his commitments as a minister in the Government of Kazakhstan. They provided any comments to the Chairman or Company Secretary on matters to be discussed in advance of those meetings they missed.

In addition to the five scheduled meetings of the Board during the year, one further meeting was held during the year which focused solely on a review of the Group's strategy.

Development

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

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

Where appropriate, additional training and updates on particular issues are arranged. For example, over the last 12 months, members of the Board have made visits to the Group's operations in Kazakhstan and have received specific briefings by management on the Financial Services Authority's (FSA) consultation on 'Enhancing the Effectiveness of the Listing Regime', the FRC's publication of the revised edition of the UK Corporate Governance Code and Guidance on Audit Committees, and changes to the disclosure of inside information regime in Hong Kong (which brings it into line with the current equivalent legislation in the United Kingdom). All Directors are provided with the opportunity, and encouraged to attend, for training to ensure they are kept up to date on relevant legal and financial developments or changes in best practice, and changing commercial and other risks. Typical training for Directors includes attendance at seminars, forums, conferences and working groups as well as receiving e-mail alerts from relevant bodies providing updates on various legal, regulatory and corporate governance matters.

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

Information and support

The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, that applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. The Company Secretary is also responsible for ensuring good information flows within the Board and its committees and between senior management and non-executive Directors. All Directors have access to the advice and services of the Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

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

Performance evaluation

A full Board performance evaluation process was undertaken in late 2012/early 2013 in respect of the calendar year 2012. The process was carefully structured but pragmatic, designed to bring about a genuine debate of issues that are relevant, and assist in identifying any potential for improvement in the Company's processes. It entailed the completion of tailored questionnaires on the performance of the Board, its committees and its executive and non-executive Directors by each Director and the preparation of a composite report. The results of the performance evaluation report will be presented and discussed at the May 2013 Board meeting and will be disclosed in next year's Annual Report and Accounts.

As set out in last year's Annual Report and Accounts, and in line with the Company's policy and in compliance with the provisions of the Code, a full Board performance evaluation process, facilitated by an external consultant, Lintstock Ltd, was undertaken in late 2011/early 2012 in respect of the calendar year 2011, the previous externally facilitated Board performance evaluation having been performed in 2008. The process entailed the completion of detailed questionnaires on the performance of the Board, its committees and its executive and non-executive Directors by each Director (excluding Charles Watson who was appointed on 24 August 2011), which were completed in 2011.

The Board questionnaire focused on:

- Board composition, expertise and dynamics;
- adequacy of information provided by management and time allocated for discussion;
- performance of Board committees;
- the Board's strategic and operational oversight;
- risk management and internal control;
- succession planning and human resource management;
- the information flow on the process for the secondary listing on the Hong Kong Stock Exchange; and
- the priorities for improving the Board's performance in the future.

This was followed by one-to-one interviews between the external consultant and each Director and the preparation by the external consultant of a composite written report. The results of the Board performance evaluation report were presented at the May 2012 Board meeting and it concluded that the Board and its committees continue to operate effectively and each Director is contributing effectively and demonstrates commitment to his role. However, a number of areas were identified for improvement including ensuring the non-executive Directors were adequately briefed on country-specific issues relating to the performance of the Company; more review by the Board of past decisions to capture any lessons available; greater involvement by the Board in reviewing the Group's strategy; and more focus at Board level on the succession planning for the executive Directors and for key senior management positions.

During the year, the Chairman held a number of meetings with non-executive Directors without executive Directors being present. The Senior Independent Director also led the non-executive Directors in evaluating the performance of the Chairman. As part of the evaluation of the performance of the Chairman, the Board remains satisfied that the Chairman is able to fulfil all of the commitments required of his role.

Re-election

New Directors appointed by the Board must submit themselves for election by shareholders at the Annual General Meeting following their appointment. Michael Lynch-Bell, having been appointed by the Board on 27 February 2013, will retire and submit himself for election at the forthcoming Annual General Meeting. The Code requires that all Directors be subject to annual re-election by shareholders. The Board has adopted this requirement as part of its commitment to shareholder accountability. Accordingly, all other Directors will be submitted for re-election at the forthcoming Annual General Meeting.

Conflicts of interest

The Companies Act 2006 introduced a new statutory duty requiring a Director to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's Articles of Association include provisions giving the Directors authority to approve such situations and to allow conflicts of interest to be dealt with in a similar way to the position that existed prior to the coming into force of this legislation. There is no breach of duty if the relevant situation has been so authorised in advance.

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

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

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

UK Bribery Act 2010

The UK Bribery Act 2010, which came into force on 1 July 2011, established criminal offences of bribing another person, being bribed, bribery of foreign officials and the failure of a commercial organisation to prevent bribery. In response to the legislation, the Group has implemented a Group Anti-Bribery and Corruption Compliance Programme to assist in the prevention of involvement of individuals or Group entities in unlawful activities. The Board has adopted a clear position on bribery and corruption and attaches the utmost importance to the Group Anti-Bribery and Corruption Compliance Programme in clarifying the standards expected of all employees of the Group wherever it does business.

The Group Anti-Bribery and Corruption Compliance Programme includes a clear statement of an anti-bribery and anti-corruption culture fully and visibly supported by the Board; corruption risk assessments across the Group; clear and practical policies and procedures; due diligence of business partners; training; monitoring; and assurance. As part of the Group Anti-Bribery and Corruption Compliance Programme, a number of Group policies have been established including Anti-Bribery and Corruption Code, Facilitation Payments Policy, Gifts and Hospitality Policy, Third Party Due Diligence Compliance Programme, Conflicts of Interest Policy and Speak-Up Policy.

During 2012, an independent review of the adequacy of the Group Anti-Bribery and Corruption Compliance Programme in meeting the requirements of the UK Bribery Act 2010 was conducted by an external consultant, Good Corporation. The review determined that, whilst good progress had been made in establishing adequate procedures, there were a number of areas which needed to be considered further, including communications, procurement activities, assurance and the remit of the compliance function. The matters raised in the review will be addressed as part of the Group's ongoing programme to establish the highest practicable standards of anti-bribery and corruption practices across the Group.

Accountability

Internal control

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

The Board confirms that, throughout the year ended 31 December 2012 and up to the date of approval of this Annual Report and Accounts, there have been processes in place for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance (as amended by the Flint Review). The Company is aware that the FRC are proposing to publish updated Turnbull Guidance for consultation during 2013. The Company will review the updated Turnbull Guidance when published and review its internal control and risk management policies and procedures in light of the revised guidance.

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

All of the Group's internal control and corporate governance policies and procedures are contained in a single document entitled 'Group Policy Guidelines on Corporate Governance' with the aim of better promoting a culture of pragmatic corporate governance through raising awareness of the policies and procedures amongst senior management.

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

- Group financial, treasury, operating and administrative policies and procedures which incorporate statements of required behaviour;
- continuous review of safety, operating and financial performance of the Group's businesses;

- regular reports to the Board and Group Health, Safety and Environment Committee on health, safety and environmental matters;
- monitoring by the Board of a comprehensive reporting system, including monthly results, periodic short-term forecasts, annual budgets and medium-term plans;
- well-defined procedures for appraisal, approval, control and monitoring of major capital projects, including acquisitions and disposals;
- an established methodology for ranking the level of risk in each of its business operations and the significant risk issues associated therewith;
- implementation of appropriate strategies to deal with significant risks, including measures such as insurance and use of external specialists;
- a centrally coordinated internal audit programme to support the Board in its role of ensuring a sound control environment;
- regular reports to the Audit Committee on the adequacy and effectiveness of internal control; and
- a remuneration policy for executives which motivates them, without delivering excessive benefits or encouraging excessive risk taking.

The Board, in conjunction with management, continues to review and further develop the internal control environment where appropriate.

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

The Group's approach to risk management and how it profiles the risks it has identified is set out in the Summary Risk Management section on pages 16 and 17.

Internal audit

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

Internal audit's work is focused on the Group's significant risks and the Head of Internal Audit and the Group Risk Manager work closely when considering the internal audits to be performed. The mandate and programme of work of the internal audit department is approved by the Audit Committee. Based on the approved audit plan, internal audit has undertaken a number of audits across the Group's operations and functions to facilitate improvement of the Group's internal controls and reports findings to relevant operational management. The Head of Internal Audit reports regularly to the Audit Committee and the chairman of the Audit Committee reviews the remuneration of the Head of Internal Audit.

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

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

Relations with shareholders

Dialogue with shareholders

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

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

There is regular dialogue with key institutional shareholders, fund managers and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group, who also from time to time visit the Group's operations. During 2012, executive Directors and senior management met with institutional investors in the United Kingdom, continental Europe, Canada, United States of America, China, Hong Kong and Singapore and attended several conferences in the United Kingdom, Hong Kong and United States of America providing a comprehensive dialogue with shareholders.

The Company issues quarterly production updates normally in January, April, July and October and interim management statements normally in April and October to the market. These, together with copies of institutional analyst presentations each half year, the Group's preliminary and half-yearly results and all announcements issued to the London Stock Exchange and Hong Kong Stock Exchange (in English and in Chinese), are available on the Company's website (www.kazakhmys.com).

General Meetings

The Notice of Annual General Meeting is circulated to all shareholders at least 20 business days prior to such a meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting at which there is an opportunity for individual shareholders to question the Chairman and, through him, the chairmen of the principal Board committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

All members of the Board (excluding Daulet Yergozhin who was unable to attend due to a conflict in schedules arising from his commitments as a minister in the Government of Kazakhstan) attended the 2012 Annual General Meeting. At the Annual General Meeting, the Chairman provides a brief summary of the Company's activities for the previous year to shareholders. All resolutions at the 2012 Annual General Meeting were voted by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and Hong Kong Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.

Board committees

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

Board committee membership

The current membership of the Board's committees is shown in the table below:

	Audit Committee	Group Health, Safety and Environment Committee	Nomination Committee	Remuneration Committee
Vladimir Kim	–	–	C	–
Oleg Novachuk	–	–	–	–
Eduard Ogay	–	–	–	–
Philip Aiken	–	C	M	M
Clinton Dines	M	M	–	–
Simon Heale	C	M	M	M
Michael Lynch-Bell	M	–	–	–
Lord Renwick	–	–	M	C
Charles Watson	M	M	–	–
Daulet Yergozhin	–	–	–	–

C: Chairman of committee

M: Member of committee

Audit Committee

The Board relies on the Audit Committee to provide effective governance over financial reporting, internal control and assurance processes, together with the identification and management of risk.

The current members of the Committee are:

Simon Heale, Chairman
Clinton Dines
Michael Lynch-Bell (from 27 February 2013)
Charles Watson

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

Governance

Simon Heale and Michael Lynch-Bell have recent and relevant financial experience; their biographies are set out on pages 20 and 21. The other members of the Committee, Clinton Dines and Charles Watson, have broad commercial experience and knowledge of international businesses which they bring to the Committee's deliberations. The Chief Executive, Chief Financial Officer, Company Secretary, Head of Internal Audit and the external auditor are normally invited to attend Committee meetings.

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

During the year, the Committee decided to commence a formal, competitive tender process for the provision of external audit services. The criteria for the selection of the external auditor was prepared by management and approved by the Committee. The incumbent external auditor, Ernst & Young LLP, was invited to participate in the tender process. The tender process consisted of three stages with meetings between the external auditor firms, management in the UK and Kazakhstan and the Committee chairman, the submission by the external auditor firms of formal proposal documents, and presentations by the external audit firms to an evaluation panel established by management. Following the completion of the tender process, the Committee recommended to the Board, and the Board approved, the appointment of KPMG Audit Plc as external auditor to the Group. KPMG Audit Plc were appointed as external auditor in June 2012 at which time the incumbent external auditor, Ernst & Young LLP, resigned. KPMG Audit Plc performed the review of the Group's half-yearly results for the period ended 30 June 2012. An ordinary resolution appointing KPMG Audit Plc as external auditor and authorising the Directors to set their remuneration will be proposed at the forthcoming Annual General Meeting.

Attendance at Audit Committee meetings

There were six scheduled meetings of the Audit Committee, including two scheduled meetings which were convened to discuss one item of business only, being the financial disclosures in the Interim Management Statements, during 2012 with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2012
Simon Heale	1 January 2007	6/6
Clinton Dines	1 October 2009	3/6
Charles Watson	24 August 2011	6/6

Clinton Dines missed three Committee meetings due to a conflict in schedules. He provided any comments to the Committee chairman or the Company Secretary on matters to be discussed in advance of those meetings he missed.

In addition to the six scheduled meetings of the Audit Committee during the year, one further meeting was arranged at short notice to deal with the external auditor tender process.

Role of the Audit Committee

Key roles and responsibilities of the Audit Committee include:

- monitoring the integrity of the financial statements of the annual and half-yearly results, interim management statements and any other formal announcement relating to financial performance, including a review of the financial reporting judgements which they contain;
- reviewing the Company's internal financial controls, internal control and risk management systems;
- monitoring the role and effectiveness of the internal audit function;
- overseeing the work of the Projects Assurance Committee;
- establishing and overseeing the Company's relationship with the external auditor, including the monitoring of their independence and expertise, the terms of reference of their engagement and fees, and assessing the effectiveness of the audit process;
- agreeing the scope of the external auditor's annual audit plan and reviewing the output;
- considering and making recommendations to the Board on the appointment and re-appointment of the external auditor; and
- reviewing annually the Committee's own performance, constitution and terms of reference.

Activities in 2012

At its meetings in 2012, the Committee considered, amongst other matters, the following:

Financial reporting:

- reviewed annual and half-yearly results and interim management statements, including accounting policies, significant financial reporting estimates and judgements applied in preparing them and the transparency and clarity of the disclosures within them;
- received reports from management and the external auditor on accounting, financial reporting and taxation issues;
- reviewed the methodology for producing the disclosure of the mining reserves and resources and other relevant disclosures in the Annual Report and Accounts; and
- reviewed the basis for preparing the Group accounts on a going concern basis.

Internal control:

- reviewed the design and effectiveness of the Group's system of internal control as set out on pages 56 and 57 and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed and recommended to the Board amendments to the Group Treasury Policy;
- reviewed the Group's processes for disclosing information to the external auditor and the statement concerning such disclosure in the Annual Report and Accounts;
- received a presentation on the controls and assurance plan over geological reserves and resources; and
- considered and approved the establishment of a sub-committee of the Committee, Projects Assurance Committee, for the purpose of assisting the Committee in procuring third party, independent operational and financial assessments of the Group's major growth projects at Bozshakol and Aktogay, and its terms of reference. The Committee members are Charles Watson (Chairman), Oleg Novachuk and David Munro.

Risk management:

- reviewed the risk management activities undertaken in order to identify, measure and assess the Group's significant risks;
- reviewed and challenged the Group's significant risks identified by management in the Group risk map, and reviewed the effectiveness of the Group risk management framework as described on pages 16 and 17, and reports arising out of the risk management process;
- monitored the Group's significant insurance arrangements and reviewed the Group's insurance broking arrangements; and
- received a presentation on a risk management review of the Group's Procurement department.

Internal audit:

- reviewed and approved the re-focus of the internal audit department on the Group's significant risks, including rotational and ad hoc internal audits;
- approved the internal audit department's three year strategic plan and annual operational plans and reviewed reports from the internal audit department relating to control matters;
- reviewed the level of resources allocated to the internal audit department to ensure the annual operational plans could be delivered as part of the overall assessment of the effectiveness of the internal audit department; and
- considered the proposal to engage external specialists to assist the internal audit department in performing internal audits of health and safety procedures, the execution of major growth projects and other specialist areas.

External auditor:

- conducted a formal, competitive tender process for the provision of external audit services;
- approved the terms of engagement of the external auditor, the fees paid to them and the scope of work carried out by them;
- performed an annual review of the policies on the independence and objectivity of the external auditor, the use of the external auditor for non-audit services, and the employment of former employees of the external auditor;
- assessed the independence and objectivity of the external auditor and in this process reviewed a report from the external auditor on all relationships that might reasonably have a bearing on their independence and the audit partner and staff's objectivity, and the related safeguards and procedures;
- reviewed the transition plan of the new external auditor for the half-yearly review and year end audit;
- received reports on the findings of the external auditor during their half-yearly review and annual audit and reviewed the recommendations made to management by the external auditor and management's responses;
- reviewed the quality assurance processes of the external auditor;
- reviewed letters of representation to the external auditor;
- assessed the performance and effectiveness of the external auditor; and
- recommended the re-appointment of the external auditor.

Other matters:

- reviewed reports on changes to UK and Kazakhstan tax legislation and significant Group tax projects;
- reviewed the Speak-Up policy and the independent and confidential arrangements in place by which staff may, in confidence, raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters;
- received reports on matters raised via the Speak-Up facilities, the process for the investigation of those matters raised, the outcome of the investigation and any actions taken;
- received a presentation by the external auditor on the economic, financial and legal developments in Kazakhstan;
- received an update from management on the latest technical accounting and regulatory issues;
- reviewed its terms of reference and the results of the performance evaluation of the Committee; and
- reviewed the training requirements of the Committee members.

The Committee's policy on the use of the external auditor for non-audit services includes the identification of certain non-audit services which may or may not be provided and a process through which other non-audit services may be approved. The policy requires any new engagement with the external auditor for the provision of non-audit services in excess of £100,000 to be approved in advance by the Chief Financial Officer and the Committee chairman or a sub-committee of any two members, with any non-audit services up to a limit of £100,000 being approved by the Chief Financial Officer.

Any project or engagement with the external auditor in excess of £20,000 that is not included in the list of those non-audit services which may be provided by the external auditor must be approved in advance by the Committee or a sub-committee of any two members of the Committee, with any such services up to a limit of £20,000 being approved by the Chief Financial Officer. In addition, any such non-audit services in excess of £100,000 must be subject to a competitive tender process.

The non-audit services of the external auditor will only be used where the Group benefits in a cost-effective manner and the external auditor maintains the necessary degree of independence and objectivity. Details of all non-audit services are reported to the Committee twice a year. The policy will be kept under review and may be amended from time to time as necessary.

Details of the amounts paid to the external auditor for audit and non-audit services for the year ended 31 December 2012 and information on the nature of non-audit fees appear in note 10 to the consolidated financial statements on page 118.

Significant issues considered by the Committee

During the year, the Committee considered, amongst other matters, a number of significant issues in relation to the financial reporting of the Group including:

- the requirement for an impairment review of the Group's investment in ENRC PLC and the assessment of the write-off which was recognised;
- the requirement for an impairment review of the Group's mining assets, including the Bozymchak project, for which a write-off was recognised;
- the requirement for a review of the Group's net asset carrying value as it was below the Group's market value;
- the continued classification of MKM as an asset held for sale in light of the ongoing disposal negotiations;
- the accounting treatment for a refund of excess profits tax paid in prior years; and
- the assessment of the provision for the Group's disability benefits obligation as a result of changes to legislation in Kazakhstan.

Group Health, Safety and Environment Committee

Improving our health, safety and environmental performance is a priority and we will continue to work hard to strive toward meeting international standards.

The current members of the Committee are:

Philip Aiken, Chairman
Clinton Dines
Simon Heale (from 27 February 2013)
Charles Watson

The Committee is primarily responsible for keeping under review the development and maintenance of a framework of policies and standards for identifying, assessing, managing and reporting health, safety and environmental risks and their impacts on the Group's activities.

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

Attendance at Group Health, Safety and Environment Committee meetings

There were three scheduled meetings of the Group Health, Safety and Environment Committee during 2012 with each member attending shown below:

Members	Committee member since	Attendance at scheduled meetings during 2012
Philip Aiken	1 November 2006	3/3
Clinton Dines	25 August 2010	3/3
Charles Watson	16 November 2011	3/3

Role of the Group Health, Safety and Environment Committee

Key roles and responsibilities of the Group Health, Safety and Environment Committee include:

- keeping under review the development and maintenance of a framework of policies and standards for managing health, safety and environmental risks and their impacts on the Group's activities;
- reviewing compliance by the Group with relevant health, safety and environmental legislation;
- monitoring and assessing the behaviour of management toward managing health, safety and environmental-related risks;
- reviewing significant safety incidents and considering the key causes, consequences and actions taken by management to prevent similar incidents occurring in the future;
- making proposals to the Remuneration Committee regarding appropriate health, safety and environmental performance objectives for executive Directors and certain senior managers and, in due course, providing its assessment as to performance against such objectives;
- reviewing the findings of any internal or external reports on the Group's health, safety and environmental systems, assessing any strategies and action plans developed by management in response to issues raised and where appropriate, making recommendations to the Board on such matters; and
- reviewing annually the Committee's own performance, constitution and terms of reference.

Activities in 2012

At its meetings in 2012, the Committee considered, amongst other matters, the following:

- reviewed and evaluated fatal and serious incident reports through the Fatal and Serious Incidents Review Panel;
- monitored and evaluated a number of key safety and environmental initiatives;
- reviewed and evaluated reports on the implementation and effectiveness of a number of health, safety and environmental policies and procedures;
- monitored and evaluated performance against the Group's five year health and safety management plan and five year environmental plan;
- monitored and evaluated the safety training activities of the Group, including those programmes developed in conjunction with DuPont Sustainable Solutions;
- reviewed contractor and sub-contractor safety processes and procedures;
- reviewed safety processes and systems at the Bozshakol site; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

Nomination Committee

The Nomination Committee has had a busy year, recruiting a new, non-executive Chairman and also securing the appointment of a new independent non-executive Director. It has focused on ensuring Kazakhmys has the best Board to support its business going forward.

The current members of the Committee are:

Vladimir Kim, Chairman
Philip Aiken
Simon Heale
Lord Renwick

The Committee is primarily responsible for leading the process for Board appointments and for keeping under review the balance of skills, experience, independence, knowledge and diversity, including gender, on the Board to ensure the orderly evolution of the membership of the Board.

The Committee, which provides a formal and transparent procedure for the appointment of new Directors to the Board, generally consults external consultants and advisers on prospective Board appointments. The Committee keeps under review the planned and progressive refreshing of the Board and its committees, prepares a description of the specific experience and skills needed for an appointment, considers candidates put forward by external consultants, and recommends to the Board the appointment of all Directors after having met short-listed candidates. It also supervises and puts into place succession planning for non-executive Directors and certain senior managers and reviews and, where appropriate, recommends to the Board for authorisation Directors' conflicts of interest.

Governance

The Committee is chaired by the Chairman of the Company. Whilst he is not deemed to be independent, the majority of the members of the Committee are independent non-executive Directors in accordance with provision B.2.1. of the UK Corporate Governance Code. When dealing with any matters concerning the Chairman of the Company, the chairman of the Committee will absent himself from meetings, as required, and Lord Renwick would take the chair.

Attendance at Nomination Committee meetings

There were two scheduled meetings of the Nomination Committee during 2012 with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2012
Vladimir Kim	1 October 2005	1/2
Philip Aiken	1 November 2006	2/2
Simon Heale	1 January 2007	2/2
Lord Renwick	1 December 2005	2/2

One of the Nomination Committee meetings held during the year was convened for the purpose of considering the establishment of a sub-committee of the Committee with the objective of selecting and recommending to the Board a new, non-executive Chairman. The Committee approved the establishment of a sub-committee comprising all the independent non-executive Directors. Any independent non-executive Director who wished to be considered for the role of non-executive Chairman was required to step down from the sub-committee at that time. Three meetings of the sub-committee of the Committee were held during the year.

Role of the Nomination Committee

Key roles and responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including the skills, experience, independence, knowledge and diversity, including gender) of the Board and making recommendations to the Board with regard to any changes;
- giving full consideration to succession planning for Directors and certain senior managers, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- before any appointment is made by the Board, evaluating the balance of skills, experience, independence, knowledge and diversity, including gender, on the Board, and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- keeping under review the Directors' existing and any new conflicts of interest and reporting to the Board and making recommendations as to whether the conflict should be authorised;
- keeping under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- reviewing the results of the Board performance evaluation process that relates to the composition of the Board and reviewing annually the time commitments required from the non-executive Directors to fulfil their duties;
- reviewing annually the Committee's own performance, constitution and terms of reference;
- recommending to the Board suitable candidates for the role of Senior Independent Director, and membership of the Audit, Group Health, Safety and Environment and Remuneration Committees;
- recommending the re-appointment of any non-executive Director at the conclusion of their specified term of office having given regard to their performance and ability to continue to contribute to the Board in the light of the skills, experience, independence and knowledge required; and
- recommending the re-election by shareholders of any Director in accordance with the provisions of the UK Corporate Governance Code having due regard to their performance and ability to continue to contribute to the Board in the light of the skills, experience and knowledge required and the need for progressive refreshing of the Board.

Activities in 2012

At its meetings in 2012, the Committee considered, amongst other matters, the following:

- the establishment of a sub-committee of the Committee with the objective of selecting and recommending to the Board a new, non-executive Chairman;
- reviewed the composition of the Board and its committees to ensure the appropriate mix of skills, experience and knowledge is present;
- under the retirement provisions in the Company's Articles of Association, recommended to the Board the election of Charles Watson by shareholders at the 2012 Annual General Meeting having due regard to the performance and ability for him to continue to contribute to the Board and its committees;
- in accordance with provision B.7.1. of the UK Corporate Governance Code, recommended to the Board the re-election of all other Directors by shareholders at the 2012 Annual General Meeting having due regard to the performance and ability for each Director to continue to contribute to the Board and its committees;
- reviewed the time commitment required by non-executive Directors to fulfil their duties; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

Recruitment process

New Chairman

Following the announcement by Vladimir Kim at the Annual General Meeting in May 2012 that he intended to step down as Chairman and to hand on the role to a new, non-executive Chairman bringing the Company fully into line with the provisions of the UK Corporate Governance Code, the Nomination Committee commenced the process for the appointment of a new, non-executive Chairman. The process to identify a new, non-executive Chairman commenced in May 2012 and was led by Philip Aiken, as Senior Independent Director. A sub-committee of the Nomination Committee was established, comprising all independent non-executive Directors, with the objective of selecting and recommending to the Board a new Chairman. Any independent non-executive Director who wished to be considered for the role of non-executive Chairman was required to step down from the sub-committee at that time. In accordance with best practice, Vladimir Kim was not involved in the process to recruit his successor.

Three executive search consultants were invited to tender and, having reviewed the proposals received, the sub-committee agreed to appoint Spencer Stuart as the executive search consultant to assist the sub-committee in the process. A formal, rigorous and transparent search process was put in place with a candidate profile and position specification prepared including time commitment expected, experience, ability to lead the Board, ability to be the public face of the Company with investors and other stakeholders, overall responsibility for corporate governance and ability to ensure matters of safety, strategy, performance and finance were appropriately implemented by the management team. Spencer Stuart held meetings with all current Directors to assess their opinion on the attributes required for the new, non-executive Chairman, at which time any independent non-executive Director who wished to be considered for the role could inform Spencer Stuart.

Four candidates were short-listed for the role from a wider pool reviewed by Philip Aiken. Following meetings with all four candidates, the sub-committee agreed that Simon Heale met the specification of the role, possessing all the necessary skills, experience, knowledge and independence to fulfil the role. The sub-committee unanimously recommended his appointment as non-executive Chairman to the Board, which the Board approved.

New independent non-executive Director

Following the appointment of Simon Heale as non-executive Chairman, the Nomination Committee agreed it was necessary to consider the appointment of a new independent non-executive Director who could replace Simon Heale as chairman of the Audit Committee. Following the introduction of Michael Lynch-Bell by a member of the Board, the Nomination Committee unanimously agreed it was not necessary to look further for a suitable non-executive Director as he brought the skills, experience, knowledge and independence required of the role. In particular, the Nomination Committee noted his recent and relevant financial and mining experience would be invaluable to the Audit Committee and to the Board as a whole.

The Nomination Committee unanimously recommended to the Board the appointment of Michael Lynch-Bell as an independent non-executive Director, which was unanimously approved by the Board. He will be appointed as chairman of the Audit Committee when Simon Heale replaces Vladimir Kim as Chairman at the conclusion of the Annual General Meeting on 17 May 2013. While neither an executive search consultancy nor open advertising were used, the appointment was made on merit based on the requirements identified by the Nomination Committee.

The Nomination Committee plans to ensure the recruitment processes for the appointment of future non-executive Directors is in line with best practice.

Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with the reporting requirements of the Companies Act 2006 and Schedules 5 and 8 of The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. It also describes the Group's compliance with the UK Corporate Governance Code in relation to remuneration. The Committee takes significant account of guidelines issued by the ABI, RREV and other shareholder bodies when setting the remuneration framework. It also seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. Furthermore, in response to the UK government's new legislation regarding the reporting of Directors' remuneration and changes to shareholder voting rights, a number of the revised reporting requirements have been incorporated into this year's remuneration report ahead of the legislation coming into force.

Remuneration principles

The Group's success depends on the performance and commitment of its employees. Kazakhmys' approach toward executive performance, reward and benefits supports and drives its strategy and business objectives and reinforces its values in the context of appropriate risk management.

The Committee seeks to ensure that the Company's remuneration policies and practices:

- facilitate the recruitment, retention and motivation of high calibre executives with the appropriate skills to implement the Group's strategy and business objectives;
- provide a strong and demonstrable link between incentives and the Group's strategy and business objectives;
- set a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances, and which enables executive Directors and certain senior managers to share in the long-term success of the Group, without delivering excessive benefits or encouraging short-term measures or excessive risk taking; and
- are aligned to shareholder interests.

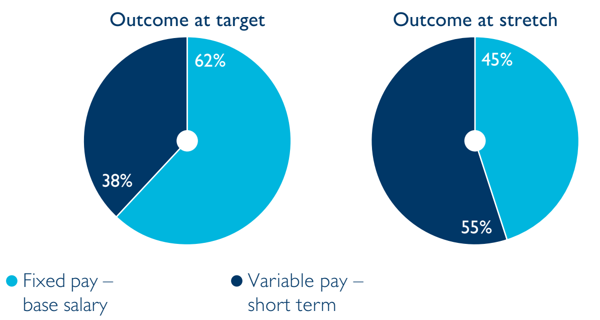
The strategy for executive Director remuneration, in general terms, is to provide a balanced package around the relevant mid-market level for comparable mining companies and other companies of a similar size to Kazakhmys, with a high proportion of total remuneration being awarded through performance-related elements.

Pay and performance

In determining the levels of executive reward, the Committee continues to place considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received, and the achievement of Kazakhmys' strategic and business objectives. The Committee sets stretching performance objectives for executive Directors and certain senior managers. To achieve these objectives and deliver performance requires outstanding business management and strategic execution. The annual bonus plan performance targets are therefore based on four equally weighted measures with a clear alignment to the Group's KPIs and strategic priorities. As safety is a key priority of the Group, awards are also subject to a safety override ensuring that payouts will be scaled back in the absence of improvement in the Group's safety performance. The LTIP provides a focus on delivering superior returns to shareholders by providing rewards over a 41 month period for shareholder return outperformance as measured by the Company's total shareholder return against a comparator group of mining companies.

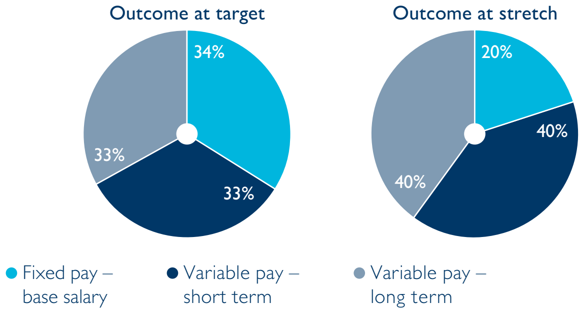
The balance between fixed and variable elements of remuneration changes with performance. Based on expected values at target and the average of the different remuneration elements for each executive Director, the intended mix between fixed and variable for Oleg Novachuk and Eduard Ogay is that more than 60% of remuneration earned is performance-related. At maximum, the weighting of performance-related remuneration increases to around 75% to 80% of remuneration earned. Although Vladimir Kim does not receive long term incentive awards, at target almost 40% of his remuneration earned is performance-related, increasing to 55% at maximum. This mix is shown in the charts below.

Composition of pay: Vladimir Kim – Executive Chairman



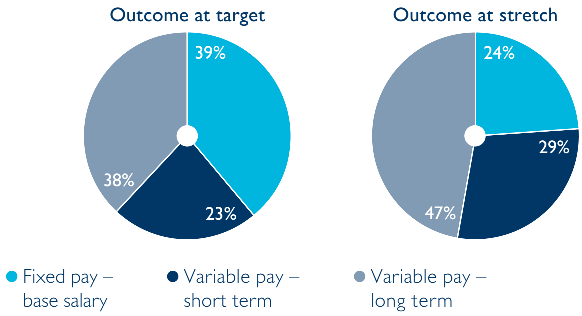
Source: based on 2013 policy; does not take account of any share price growth.

Composition of pay: Oleg Novachuk – Chief Executive



Source: based on 2013 policy; does not take account of any share price growth.

Composition of pay: Eduard Ogay – Executive Director



Source: based on 2013 policy; does not take account of any share price growth.

Executive Directors' remuneration package

The Committee determines the remuneration packages for the executive Directors. The packages are designed to attract and retain high calibre executives, induce loyalty and motivate them to achieve a high level of long-term corporate performance in line with the best interests of shareholders, whilst avoiding excessive risk taking and short-term measures. The principal elements of remuneration for executive Directors and senior managers are:

- base salary;
- benefits-in-kind;
- an annual bonus opportunity; and
- Long Term Incentive Plan awards.

Base salary and benefits

Base salaries are reviewed annually and normally take effect from 1 January.

Base salaries are generally set around the mid-market level for each role compared to companies of a similar size, with particular regard to other mining companies, and take account of the level of experience, group and individual performance and the external market. In setting base salaries the Committee also takes into account the general economic environment and salary increases applying across the rest of the Group, particularly in the UK. Base salaries paid to executive Directors are adjusted to take account of the absence of any pension provision.

Vladimir Kim and Oleg Novachuk last received an increase in their base salaries with effect from 1 July 2011, an increase of 3.5%. No increases were made to executive Directors' base salaries in 2012. The Remuneration Committee has considered pay increases for the executive Directors and certain senior managers for 2013. In determining these salaries, the Remuneration Committee took into consideration the experience, performance, and the internal and external relative positioning for total reward of the individuals, and also took into account the average budgeted increase in base salaries of the Group's workforce in 2013 which are expected to be within local inflation levels and of the UK workforce of approximately 3%. As a result of these considerations and the emphasis on salary restraint from shareholders, the Remuneration Committee (in consultation with Oleg Novachuk (Chief Executive)) determined that the base salaries of Oleg Novachuk and Eduard Ogay would not be increased in 2013. As Vladimir Kim will be stepping down as Chairman at the forthcoming Annual General Meeting his base salary will remain unchanged until that time, whereupon he will be paid a salary as executive chairman of Kazakhmys Corporation LLC plus the non-executive Director's base fee of £84,000.

The base salaries for the executive Directors paid for 2011 and 2012, and payable for 2013, are shown in the table below:

Executive Directors' base salaries

	2011 £000	% increase	2012 £000	% increase	2013 £000	% increase
Vladimir Kim	1,044	4.3	1,062	1.7	1,062	Nil
Oleg Novachuk	842	4.3	856	1.7	856	Nil
Eduard Ogay[1]	314	–	532	Nil	532	Nil

[1] Appointed on 13 May 2011.

Benefits include health insurance and, where appropriate, car and driver, and relocation assistance, all in line with entitlements provided for executives in similar positions in comparable companies.

Annual bonus plan

The annual bonus plan is reviewed annually and is designed to drive profitability and individual performance from year to year. The maximum bonus potential is 200% of base salary for Oleg Novachuk and 120% for other executive Directors. The proportion of bonus payable for on-target performance is 50% of the maximum.

The annual bonus plan comprises four discrete elements, with each element representing an equal proportion of the maximum bonus potential:

- operational performance;
- financial performance;
- strategic development (including execution of new projects); and
- shareholder return.

Awards are also subject to a safety override, ensuring that they will be scaled back to reflect the Group's safety performance.

In determining the actual bonus payments, the Committee takes into consideration such factors as performance related to the Group's financial KPIs, operational performance against budget, safety performance, business development activities and performance against industry peers. Payments are made in return for the achievement of stretching objectives. Specific objectives are not disclosed as they would give a clear indication of the Group's business targets which are commercially sensitive.

To take account of any serious problems that the Company may become aware of in the years after awards have been made, awards under the annual bonus plan are subject to clawback. Under this mechanism, the Committee has discretion in exceptional circumstances to determine that where there has been continuity of executive responsibility (between initiation of a serious adverse event and its emergence as a problem), the serious adverse event should be taken into account in assessing annual bonuses in the year the problem is identified, and, where appropriate, determining that a deferred share award will not vest, will only partially vest, or will be subject to a delayed vesting. Such circumstances may include a material restatement of the Group's financial statements, the discovery of endemic problems in financial or operational reporting, or where, as a result of financial and operational losses, a material breach of regulatory guidelines has occurred or is likely to occur.

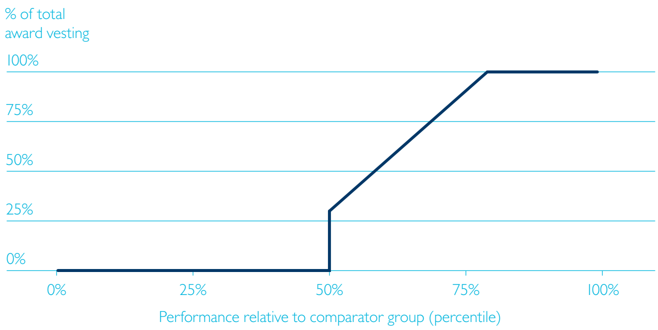
Long Term Incentive Plan

The LTIP is a discretionary long-term incentive plan and provides for the grant of nil-cost options to executive Directors and selected senior executives. The Committee reviews the quantum of awards made each year to ensure that it is in line with the market. Whilst the maximum annual award is 250% of base salary, it is the Committee's policy to only grant awards of 200% of base salary to Oleg Novachuk and Eduard Ogay, with lower award levels being applied to other senior executives. However, when making awards, wider factors will be considered in determining whether to grant at this level, such as Company performance.

The number of shares that vest is dependent on Kazakhmys' Total Shareholder Return (TSR) performance compared to a comparator group of UK and international mining companies. If Kazakhmys' TSR is ranked median or above, an award will vest as follows:

TSR ranking of Kazakhmys	Vesting percentage
Upper quartile ranking	100%
Between median and upper quartile ranking	Straight-line vesting between 30% and 100% based on ranking plus interpolation between rankings
Median ranking	30%
Below median ranking	0%

TSR Performance Vesting Schedule



Prior to 2011, the TSR target was measured on a single 'base to end' three year performance period. In 2011 the Committee made a minor change to the operation of the TSR performance target, so as to split the awards into two sub-awards each with three year vesting periods. This will not have any impact on the expected value of the awards, but will help to mitigate the impact that the cyclical nature of the copper industry has on Kazakhmys' share price.

For awards granted in 2012 the performance period for the sub-awards was:

- sub-award 1: 1 January 2012 to 31 December 2014; and
- sub-award 2: 1 June 2012 to 31 May 2015.

As the performance period of the first sub-award commences prior to the date of grant and that of the second sub-award commences after the date of grant, the performance period for the entire award is 41 months.

As the averaging period for calculating TSR is three months leading up to the start and the end of the performance period of each sub-award, under this phased approach Kazakhmys' TSR for a period of six months at the start and the end of the performance period of the entire award will have an impact on the performance outturn. This phased approach is designed to increase the number of months the share price has an impact on the performance target and to reduce the impact of the volatility of Kazakhmys' share price on the vesting of awards, whilst not materially changing the average vesting level over the medium term (and hence not increasing the expected value of awards).

TSR performance periods
Award split into two sub-awards each with three year vesting periods

The Committee continues to believe that TSR remains an appropriate performance target as it endorses consistency in the remuneration policy and provides a clear alignment of interests with shareholders. In addition, TSR ensures a degree of risk management as it, through share price, reflects both underlying financial performance and the market's assessment of the quality and sustainability of the Company's earnings.

The Committee obtains independent external advice to assess whether the Company has met the TSR performance condition at the end of the relevant period and to confirm that the companies which comprise the comparator group and the measurement of the Company's performance are both in accordance with the rules of the LTIP.

The composition of the TSR comparator group is reviewed annually by the Committee. The comparator group applicable for awards granted in 2012 comprised:

Anglo American plc	Antofagasta plc
BHP Billiton plc	Boliden AB
Eurasian Natural Resources Corporation PLC	First Quantum Minerals Ltd
Freeport-McMoran Copper & Gold Inc	Fresnillo plc
Glencore International plc	Hochschild Mining plc
Inmet Mining Corporation	Lundin Mining Corporation
Rio Tinto plc	Southern Copper Corporation
Teck Resources Ltd 'B'	Vedanta Resources plc
Xstrata plc	

Other than the expected replacement of Glencore International plc and Xstrata plc with Glencore Xstrata plc, it is intended that the comparator group for 2013 will be consistent with the 2012 group.

In the event of one or more constituents undergoing a take-over, merger, dissolution, variation in capital or any other event that will materially affect calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

In the event of a change of control, awards will normally vest on a pro-rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time, although the Committee may decide not to pro-rate an award if it is inappropriate to do so in the particular circumstances.

Executive share option plan

The ESOP is an HMRC approved discretionary company share option plan that provides for the grant of market value options up to a value of £30,000 to executive Directors and certain selected UK-based senior executives. Options will normally vest three years from the date of grant, subject to the satisfaction of a performance condition and the participant being a Director or employee of Kazakhmys at that time.

Options granted to executive Directors and senior management under the ESOP will count towards the individual limits under the LTIP and will normally be subject to the same performance condition and periods as awards granted under the LTIP.

No executive Director currently participates in the ESOP.

All employee share schemes

Executive Directors are eligible to participate in the Company's UK and International Sharesave and Share Incentive Plans on the same terms as other eligible employees.

No executive Director currently participates in a Sharesave or Share Incentive Plan.

Pensions

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

Management of risk in remuneration arrangements

The Committee takes seriously the issue of balancing risk and reward, an area that is a key focus for Kazakhmys' investors, stakeholders and regulators. During 2012, the Committee commissioned a detailed assessment of the risk environment surrounding the Company's current remuneration arrangements for executive Directors and certain senior managers. The assessment determined that whilst remuneration arrangements were broadly compatible with Kazakhmys' risk policies and systems, a number of areas could be considered further, including keeping under review the performance condition of the LTIP and the need to introduce a deferral mechanism for the annual bonus plan in the event of a further executive Director being appointed. Overall, the Committee remains satisfied that the remuneration policy is aligned with the long-term needs of the business and that incentive quantum, structure and objectives do not encourage short-term measures or excessive risk taking.

The Committee draws upon the relevant experience and knowledge of its members to ensure that it benefits from the positions they hold on other Board Committees. These include the fact that Philip Aiken is chairman of the Group Health, Safety and Environment Committee and Simon Heale is chairman of the Audit Committee. The Chief Executive also provides a link to the Executive Committee. The leveraging of such experience and knowledge enables the Committee to have an oversight of risk factors that may be relevant to remuneration arrangements and target setting specifically.

Dilution of share capital

The Company's share-based incentive plans currently operate with market purchase shares that are held in an Employee Benefit Trust. Therefore, there is no dilution of existing shareholders on the vesting of awards. In the event of the Company deciding to use shares held in treasury, such shares will count towards the limits on the number of new shares which may be issued under the rules of the relevant share-based incentive plan pursuant to institutional shareholder guidelines.

Employee Benefit Trust

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

As at 31 December 2012, 763,794 shares were held by the Employee Benefit Trust to hedge outstanding awards of 1,683,780. This means that the trust holds 45% of outstanding awards.

New Directors

Where the Company wishes to recruit new executive Directors it will need flexibility to structure a remuneration package that will attract the best candidate. Normally the elements of such a package will be in line with the policy outlined in this section. However, where the Company needs, in exceptional circumstances, to include elements not described in the policy it will consult in advance with institutional shareholders.

Remuneration for other senior managers

The remuneration for senior managers below Board level is broadly consistent with that followed at executive Director level. To encourage share ownership on the part of the most senior managers below Board level they are eligible to receive a maximum bonus potential of up to 150% of base salary with an on-target bonus potential of 75% of base salary, one-third of which is deferred and invested in the Company's shares. Provided they remain in employment, the shares will be released after two years. Senior managers are also eligible to receive awards under the LTIP.

Consideration of pay of other employees

Pay and employment conditions of other employees in the Group are taken into account when setting the remuneration policy for executive Directors. In particular, basic pay increases in the last few years have been limited to those which employees in the UK have received and the performance conditions for LTIP awards are the same as those which apply to senior managers.

Service agreements

The Company's policy is that executive Directors will be employed on a contract that can be terminated by the Company on giving no more than one year's notice, with the executive Director required to give up to six months' notice of termination.

The contracts of Vladimir Kim and Oleg Novachuk are terminable by either the Company or the executive on three months' notice. These were granted to them on 26 September 2005. The Company retains the right to terminate these contracts immediately, in accordance with the terms of their service agreement, on payment of a sum equal to the contractual notice entitlement of three months. The Company reserves the right on termination to make phased payments which are paid in monthly instalments and subject to mitigation through a legal obligation on the part of the outgoing executive Director to seek new employment.

As Eduard Ogay's operational duties lie in Kazakhstan, he has a Kazakhstan-based contract of employment granted on 23 January 2012 by Kazakhmys Corporation LLC, which entitles him to six months' notice of termination from that company or three months' notice of termination from him. Kazakhmys Corporation LLC retains the right to terminate his contact immediately, in accordance with the terms of the contract of employment, on payment of a sum equal to six months' salary. He also has an appointment letter with the Company dated 22 March 2012 in respect of his appointment as an executive Director of the Company which is coterminous with his Kazakhstan contract, but also capable of termination in its own right without compensation.

Non-executive Directors

Non-executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment provides for a one month notice period. Non-executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board. Upon appointment as non-executive Chairman at the conclusion of the forthcoming Annual General Meeting, Simon Heale's letter of appointment dated 27 February 2013 provides for a three month notice period. For each non-executive Director who served during 2012, the effective date of their letter of appointment is shown in the table below:

Name	Letter of appointment
Philip Aiken	1 November 2006
Clinton Dines	1 October 2009
Simon Heale[1]	27 February 2013
Lord Renwick of Clifton, KCMG	1 December 2005
Charles Watson	24 August 2011
Daulet Yergozhin	19 November 2008

1 Prior to his appointment as Deputy Chairman and Chairman designate, Simon Heale had a letter of appointment with an effective date of 1 January 2007.

Non-executive Director fees

Fees for the non-executive Directors are determined by the Board as a whole, upon the recommendation of the executive Directors.

The policy on non-executive Directors' fees is:

- to be sufficient to attract, motivate and retain world class talent necessary to contribute to a high performing Board;
- to be consistent with recognised best practice standards for such positions;
- to reflect individual time commitments and responsibilities, membership of Board Committees and other responsibilities;
- not to allow participation in any of the Company's share schemes or incentive plans, nor to accrue pension benefits from the Company for their non-executive Director services; and
- to be within the limits set by shareholders in the Company's articles of association.

The Board normally reviews fees every two years, with any changes normally taking effect from 1 January. Fees were last reviewed in 2011, with changes taking effect from 1 January 2012.

The fee structure from 1 January 2013 is shown below.

	Fee £000
Base fee	84
Additional fees:	
Senior Independent Director	18
Chairmen of the Audit and Group HSE Committees	18
Chairman of the Remuneration Committee	12
Member of the Group HSE Committee	12
Member of the Audit Committee	9
Chairman of Projects Assurance Committee	8
Member of the Remuneration Committee	6

New non-executive Chairman

As announced on 28 February 2013, the Board has appointed Simon Heale as non-executive Chairman with effect from the conclusion of forthcoming Annual General Meeting. Subject to shareholder approval of his re-election as a Director, it is proposed to pay Simon Heale a fee of £300,000 per annum as non-executive Chairman. In the period from the date of the announcement of 28 February 2013 to the date of his appointment as non-executive Chairman, Simon Heale will be paid a fee of £175,000 per annum as Deputy Chairman.

Policy on external appointments

The Committee believes that the Company can benefit from executive Directors holding one approved non-executive directorship of another company, offering executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow executive Directors to retain fees paid from any such appointment. No executive Director currently holds a non-executive directorship of another company.

Shareholder views

The Committee actively considered feedback received from shareholders prior to and following the 2012 annual general meeting. It also actively monitored guidance and directional themes emerging from institutional shareholder bodies and the UK government during the year on the subject of executive remuneration. This has resulted in the Committee reviewing the structure and content of the Directors' Remuneration Report with a view to improving clarity and understanding, including splitting the report into two sections: a policy report and an implementation report.

At the 2012 annual general meeting, the Directors' Remuneration Report received a majority vote in favour of 98.7% (2011: 99.6%).

Role of the Remuneration Committee

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of executive Directors and certain senior managers.

The Committee's full terms of reference are available on the Company's website. The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures executive Directors and certain senior managers are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contribution towards the success of the Company;
- ensuring that the remuneration policy is appropriate and consistent with effective risk management;
- within the agreed framework, setting and determining the total individual remuneration arrangements for executive Directors and certain senior managers, giving due regard to individual and Company performance, and remuneration trends across the Group;
- approving the design of, and determining the targets for, any performance-related plans and the total annual payments made under such plans to executive Directors and certain senior managers;
- determining any share incentive plan performance targets; and
- determining the terms of employment and remuneration of each executive Director and certain senior managers, including recruitment and termination arrangements.

Composition of the Committee

The Committee consists of three non-executive Directors, all of whom are considered by the Board to be independent pursuant to the UK Corporate Governance Code: Lord Renwick, Philip Aiken and Simon Heale. Lord Renwick is chairman of the Committee. The Chairman and Chief Executive are normally invited to attend meetings to provide information and advice to the Committee to enable it to make informed decisions. They are, however, specifically excluded from any matter concerning their own remuneration. Representatives of New Bridge Street, the Committee's retained adviser, also attend meetings by invitation as the Committee's independent adviser. The Company Secretary attends meetings as secretary to the Committee.

Attendance at Remuneration Committee meetings

The Committee met twice in 2012, with each member attending as follows:

Members	Committee member since	Attendance at full meetings during 2012
Lord Renwick	1 December 2005	2/2
Philip Aiken	1 November 2006	2/2
Simon Heale	1 January 2007	2/2

After each meeting, the chairman of the Committee presented a report on its activities to the full Board.

Committee activities

In line with its remit, the following were considered, amongst other matters, by the Committee during the year:

- reviewed the current trends in remuneration practice and updated UK governance requirements, including assessing Kazakhmys' compliance with regulations published by the Department for Business, Innovation and Skills on narrative reporting and executive remuneration;
- reviewed annual general meeting outcome and feedback from shareholder bodies and institutional shareholders, giving consideration to the implications for future remuneration policy;
- assessed the risk environment surrounding remuneration arrangements for executive Directors and certain senior managers;
- set, reviewed and approved individual remuneration arrangements for executive Directors and certain senior managers;
- performed an oversight role on the remuneration of certain senior managers immediately below Board level;
- assessed the level of achievement against objectives under the annual bonus plan and LTIP;
- considered and approved plan design, performance measures and targets to be used under the annual bonus plan and LTIP;
- reviewed and approved the Directors' Remuneration Report; and
- reviewed the Committee's performance and its terms of reference.

Priorities for 2013

For the coming year it is anticipated that the Committee will focus on the following areas:

- supporting the Group's strategy and business objectives;
- ensuring compliance with regulatory requirements;
- reviewing and assessing the ongoing appropriateness of current executive remuneration plan design and targets; and
- ensuring that remuneration arrangements continue to attract, motivate and retain executive Directors and senior managers, and reward Company performance, with a focus on maintaining the link between performance and reward, whilst maintaining a prudent approach to cost and the risk to the business.

Executive Directors' remuneration

	Vladimir Kim[1]		Oleg Novachuk		Eduard Ogay[3]	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Salary	1,062	1,044	856	842	532	314
Benefits	105	98	37	96	–	–
Sub-total – fixed remuneration	1,167	1,142	893	938	532	314
Annual performance bonus	509	626	685	715	255	272
Long Term Incentive Plan[2]	–	–	–	–	–	–
Sub-total – variable remuneration	509	626	685	715	255	272
Total	1,676	1,768	1,578	1,653	787	586

1 Vladimir Kim received an aggregate salary of £1,062,000 in 2012. Of this salary, £432,000 was paid by Kazakhmys Corporation LLC and the balance was paid by the Company. An adjustment is made each year to ensure that his aggregate salary for the year equates to his salary denominated in UK pounds sterling as a result of exchange rate differences.

2 The Long Term Incentive Plan awards granted to Oleg Novachuk on 17 May 2010 (subject to a performance condition and three year performance period as at 26 November 2009) and Eduard Ogay on 26 November 2009, lapsed on 26 November 2012 on failing to achieve the required TSR target.

3 Eduard Ogay was appointed as a Director on 13 May 2011.

4 David Munro stood down from the Board on 13 May 2011. In order for the Company to be able to continue to rely on his invaluable input, he has entered into a consultancy agreement with the Company and was paid £240,000 in 2012. There were no other payments made to former Directors during 2012.

Executive Directors' interests in the Long Term Incentive Plan

Director	Date of award	Date of vesting	Number of shares conditionally awarded as at 1 January 2012	Market price at date of grant	Awards made during the year	Awards vested during the year	Awards lapsed during the year[1]	Number of shares under award as at 31 December 2012[2]
Oleg Novachuk	17 May 2010	17 May 2013	116,532	1,201p	–	–	116,532	–
	6 April 2011	1 June 2014	117,006	1,468p	–	–	–	117,006
	4 April 2012	1 June 2015	–	887p	188,359	–	–	188,359
Eduard Ogay	26 November 2009	26 November 2012	74,240	1,213p	–	–	74,240	–
	6 April 2011	1 June 2014	73,623	1,468p	–	–	–	73,623
	4 April 2012	1 June 2015	–	887p	110,841	–	–	110,841

1 Awards granted to Oleg Novachuk on 17 May 2010 (subject to a performance condition and three year performance period as at 26 November 2009) and Eduard Ogay on 26 November 2009, lapsed on 26 November 2012 on failing to achieve the required TSR target.

2 The table shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends on unvested shares. Those awards granted in 2012 are subject to the performance condition set out on page 66, with 30% vesting at median.

3 No awards have been granted to Vladimir Kim under the Long Term Incentive Plan.

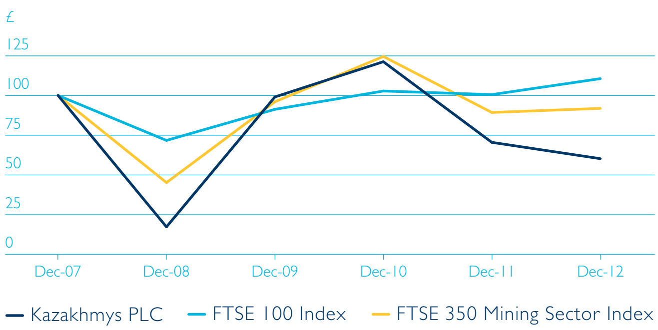
Executive Directors' annual bonus awards

In spite of challenging market conditions, the management team was able to deliver sound financial results, robust operational performance with production targets being achieved for a fifth consecutive year, and targeted strategic developments of major projects also being achieved. Share price performance was poor, affected by copper price volatility and higher unit costs. The Group's safety performance improved compared to the prior year, but requires a continuing sustained effort to further improve it, resulting in bonuses being scaled back. The overall level of performance achieved resulted in annual bonus awards to Vladimir Kim, Oleg Novachuk and Eduard Ogay of 48%, 80% and 48% of base salary, respectively. The actual bonus payments received by them are shown in the table on page 71.

Performance graph

The graph below shows the value, at 31 December 2012, of £100 invested in Kazakhmys PLC shares on 31 December 2007 compared with an equivalent investment in the FTSE 100 Index and FTSE 350 Mining Sector Index. These indices were chosen as they are broad-based indices and are widely recognised performance comparisons for large UK mining companies.

Total Shareholder Return



Remuneration for other senior managers

The base salaries for the year ended 31 December 2012 of those senior managers immediately below the level of the Board were as shown in the table below:

Salary range	Number of senior managers
£600,000 – £699,000	2
£500,000 – £599,999	–
£400,000 – £499,999	2
£300,000 – £399,999	–
£200,000 – £299,999	1

[1] Includes salary of Matthew Hird, Chief Financial Officer.

Chief Financial Officer's remuneration	Base salary £000	Annual bonus £000	Total 2012 £000
Matthew Hird	464	278	742

[1] Matthew Hird will stand down as Chief Financial Officer at the conclusion of the 2013 Annual General Meeting, but will remain an employee up to 31 December 2013 to ensure a smooth transition of the role.

Non-executive Directors' fees

Fees paid to non-executive Directors during the year ended 31 December 2012 are set out below:

Non-executive Directors' fees	Total fees 2012 £000	Total fees 2011 £000
Philip Aiken	126	108
Clinton Dines	105	96
Simon Heale	108	96
Lord Renwick of Clifton, KCMG	96	96
Charles Watson[1]	108	33
Daulet Yergozhin[2]	84	84

[1] Appointed on 24 August 2011.

[2] As a minister of the Government of Kazakhstan, Daulet Yergozhin is not permitted to receive fees personally and his fees were paid to SABY charitable trust, a children's charity based in Kazakhstan.

Directors' interests in ordinary shares

The beneficial interests of the Directors and their connected persons who held office at 31 December 2012 in the Company's ordinary shares as at that date and 1 January 2012 are shown in the table below:

Directors' interests in ordinary shares	Ordinary shares at 1 January 2012	Ordinary shares at 31 December 2012
Philip Aiken	4,000	4,000
Clinton Dines	–	3,000
Simon Heale	5,000	5,000
Vladimir Kim	149,306,795	149,306,795
Oleg Novachuk	34,923,423	34,923,423
Eduard Ogay	3,834,427	3,834,427
Lord Renwick of Clifton, KCMG	4,000	4,000
Charles Watson	–	3,624

1 No changes in Directors' interests occurred in the period 1 January 2013 to 25 March 2013.

2 The closing market price of the Company's shares at 31 December 2012 was 778p and the range for the year was 570p to 1,214p.

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. During 2012, the Committee received advice on executive compensation, performance-related pay schemes and equity-based incentive schemes from New Bridge Street, a trading name of Aon Hewitt Limited (an Aon plc company). New Bridge Street also provides advice to the Company on remuneration matters for senior employees including benchmarking of remuneration and equity-based incentives. Other than providing insurance for the shipping of some copper and silver products to third parties, no other companies within Aon plc provide other services to the Company. The terms of engagement between the Committee and New Bridge Street are available on request. The total fees paid to New Bridge Street in respect of its services during the year was £120,500. New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct.

Audit requirements

The Group's auditor, KPMG Audit Plc, has audited the information contained in the tables headed Executive Directors' base salaries, Executive Directors' remuneration, Executive Directors' interests in the Long Term Incentive Plan, Remuneration for other senior managers, Non-executive Directors' fees and Directors' interests in ordinary shares.

On behalf of the Board

Lord Renwick of Clifton, KCMG
Chairman, Remuneration Committee

25 March 2013

Other Statutory Information

Principal activities

Kazakhmys PLC is the holding company of the Kazakhmys Group. The principal activities of the Group are the production of copper and other metals as by-products, including gold, zinc and silver, and power generation.

A list of main subsidiary undertakings and the joint venture, and their principal activity, is given in note 39 on page 154.

Business Review

The Company is required to set out a fair review of the business of the Group and a description of the principal risks and uncertainties facing the Group (known as the Business Review). The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year ended 31 December 2012 and of the position of the Group at the end of that financial year. The information that fulfils the requirements of the Business Review is contained on pages 2 to 49 and 78 to 88 of the Annual Report, and is deemed incorporated by reference into the Directors' Report.

Directors

The Directors of the Company who served during the year were as shown on pages 20 and 21, together with Michael Lynch-Bell who was appointed by the Board on 27 February 2013. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 73.

All Directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting after their appointment, if appointed by the Board. Michael Lynch-Bell, having been appointed by the Board on 27 February 2013, will retire at the forthcoming Annual General Meeting and will be proposed for election. In accordance with the UK Corporate Governance Code, all other Directors will retire and submit themselves for re-election at the Company's forthcoming Annual General Meeting. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report.

At the conclusion of this year's Annual General Meeting, Vladimir Kim will step down as Chairman and be succeeded by Simon Heale. Vladimir Kim will remain on the Board as a non-executive Director. Both Directors will seek re-election at the forthcoming Annual General Meeting.

The performance of each Director was reviewed and it was found that each of them continues to make an effective and valuable contribution to the deliberations of the Board and demonstrate commitment to the role. The performance of the Chairman was reviewed by the Senior Independent Director.

During the year no Director had any interest in any shares or debentures of the Company's subsidiaries, or any material interests in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

Directors' indemnity and insurance

Kazakhmys maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to each of the Directors, the Chief Financial Officer and the Company Secretary to the extent permitted by law. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director (or Officer or Company Secretary as the case may be) of the Company or any of its associated companies. Neither the indemnity nor insurance cover provides cover in the event that a Director (or Officer or Company Secretary as the case may be) is proved to have acted fraudulently or dishonestly.

The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Companies Act 2006 and will continue in force for the benefit of Directors (or Officers or Company Secretary as the case may be) on an ongoing basis.

Dividend

The Board recommends the payment of a final dividend of 8.0 US cents per ordinary share (2011: 20.0 US cents). If approved, the dividend will be paid on 21 May 2013 to shareholders on the UK register of members at the close of business in the UK on 26 April 2013, and to shareholders on the Hong Kong register of members at the opening of business in Hong Kong on 26 April 2013. An interim dividend of 3.0 US cents per share (2011: 8.0 US cents) was paid on 3 October 2012.

Annual General Meeting

The Company's Annual General Meeting will be held at 12.15pm on Friday 17 May 2013 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom. Details of the meeting venue and the resolutions to be proposed, together with explanatory notes, are set out in a separate Notice of Meeting which accompanies this Annual Report and Accounts.

A summary of the business carried out at the Annual General Meeting will be published on the Company's website (www.kazakhmys.com).

Share capital

At 31 December 2012, the Company's issued share capital was 535,420,180 ordinary shares of 20 pence, each credited as fully paid. As at the date of this Directors' Report, the Company holds 11,701,830 ordinary shares in treasury and the issued share capital of the Company which carries voting rights of one vote per share comprises 523,718,350 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 26 commencing on page 128.

The Company's shares are listed on the London, Hong Kong and Kazakhstan stock exchanges.

Purchase of own shares

The Company was authorised by shareholders at the 2011 annual general meeting to purchase its own shares on the market within certain limits. After taking into account the profitability of the business and underlying growth in earnings of the Group, together with its cash flows and growth requirements, the Company announced on 25 August 2011 its intention to commence a share buy-back programme to purchase up to $250 million of its own shares.

On 26 September 2011, a General Meeting of the Company was held whereby the independent shareholders approved a waiver granted by the UK Panel on Takeovers and Mergers (the 'Panel') waiving the obligation that would otherwise arise under Rule 9 of the UK City Code on Mergers and Acquisitions (the 'Takeover Code') as a result of the share buy-back. The waiver expired at the conclusion of the 2012 annual general meeting.

The Company's share buy-back programme commenced on 27 September 2011 and ended on 10 May 2012. During the year ended 31 December 2012, 6,142,120 ordinary shares of 20 pence each of the Company were purchased and held as treasury shares. During the entire share buy-back programme, a total of 11,701,830 shares were purchased at a cost of $166 million and held as treasury shares (representing 2.2% of the issued share capital prior to the commencement of the share buy-back programme).

The Company was authorised at the 2012 annual general meeting to purchase its own shares on the market within certain limits. In the period since the 2012 annual general meeting, the Company did not purchase any shares under this authority. Whilst the Board will seek shareholders' approval to renew the authority to make market purchases of the Company's shares at the forthcoming Annual General Meeting, no waiver of Rule 9 of the Takeover Code will be sought from the Panel and subsequently no independent shareholders' approval in respect thereof will be sought at the forthcoming Annual General Meeting. It is currently anticipated that if the Board decides to buy back the Company's shares either the Concert Party, comprising Messrs Kim, Novachuk and Ogay, will participate pro-rata to its interests in the voting rights of the Company or a waiver from Rule 9 of the Takeover Code will be sought from the Panel subject to independent shareholders' approval.

Major shareholdings

As at 25 March 2013, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares of 20 pence each held	Percentage of total voting rights held as at 25 March 2013
Cuprum Holding Limited[1]	135,944,325	26.0%
The State Property & Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan	80,286,050	15.3%
Joint Stock Company National Welfare Fund "Samruk-Kazyna"	58,876,793	11.2%
Harper Finance Limited[2]	29,706,901	5.7%

1 Vladimir Kim holds a 100% interest in Cuprum Holding Limited.

2 Oleg Novachuk holds a 100% interest in Harper Finance Limited.

Relationship agreement

To regulate the ongoing relationship between the Company and Vladimir Kim, a relationship agreement was entered into in September 2005. The principal purpose of the relationship agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole.

Political and charitable donations

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year. The Group made charitable donations of $2.6 million during the year (2011: $7.0 million). Further details of payments for charitable and community purposes made during the year are given on pages 48 and 49.

Suppliers

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

The average creditor payment period for the year ended 31 December 2012 for the Company was 16.7 days (2011: 13.3 days).

Market value of land and buildings

Land acquired prior to 1 January 2002 is carried in the balance sheet at deemed cost resulting from a revaluation, which was undertaken as at 1 January 2002 as part of the Group's transition to reporting under IFRS. Land and buildings acquired since 1 January 2002 are recorded at cost. It is not practical to estimate the market value of land, buildings and mineral reserves and resources at each balance sheet date as this will depend on product prices over the long term which will vary with market conditions.

Policy on derivatives and financial instruments

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign exchange, counterparty credit, commodity price, liquidity and interest rate risks can be found in note 33 commencing on page 134.

Legal proceedings

Neither the Company nor any of its subsidiaries is a defendant in any proceedings which the Directors believe will have a material effect on either the Company's financial position or profitability. Commitments and contingencies are disclosed in note 34 commencing on page 141.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for the counterparties upon a change of control of the Company.

Each of a $2 billion facility agreement dated 30 December 2009, a $100 million facility agreement dated 30 December 2009, a $200 million facility agreement dated 12 January 2010, and two $200 million facility agreements dated 11 June 2012, in each case entered into between Kazakhmys Finance PLC as borrower and Joint Stock Company Sovereign Wealth Fund "Samruk-Kazyna" as lender, contain terms which give the lender the right to cancel all or any of the commitments provided to Kazakhmys Finance PLC, declare all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding immediately due and payable and/or declare that all or part of the loans be payable on demand if the Company ceases to hold 100 per cent less one share of the issued share capital of Kazakhmys Finance PLC.

The terms of each of a $1.34 billion facility agreement and RMB1.0 billion facility agreement each dated 16 December 2011 between Kazakhmys Aktogay Finance Limited as borrower and China Development Bank Corporation as lender, contain terms which give the lender the right to cancel any of the commitments provided to Kazakhmys Aktogay Finance Limited and declare all outstanding loans together with accrued interest, and all other amounts accrued and outstanding immediately due and payable on 30 business days' notice if the Company ceases to hold (directly or indirectly) more than 50 per cent of the issued share capital of Kazakhmys Aktogay Finance Limited and/or certain other named subsidiaries.

The terms of a $1 billion pre-export finance debt facility dated 20 December 2012 between Kazakhmys Finance PLC and a syndicate of banks, provide that if any person (excluding Vladimir Kim and Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the facility. If no alternative basis has been agreed during such period then the lenders may cancel the commitments of the lenders to lend the facility and declare all outstanding amounts due and payable.

Going concern

The Directors, having made appropriate enquiries, have satisfied themselves that no material uncertainties that cast significant doubt about the ability of the Group to continue as a going concern have been identified, and they have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable English law concerning companies (the Companies Act 2006). This summary is qualified in its entirety by reference to the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Rights attaching to shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association.

Voting rights

Members may attend any general meeting of the Company. On a show of hands every member (or his representative) who is present in person or by proxy has one vote on each resolution and on a poll every member (or his representative) who is present in person or by proxy shall have one vote on each resolution for each share of which he/she is the holder.

As a result of changes introduced by the Companies Act 2006 to allow multiple proxies appointed by a single member to vote on a show of hands, all substantive resolutions at general meetings will normally be put to a poll vote. Employees who participate in the Company's Share Incentive Plans (SIP) and hold shares in the SIP trusts provide directions to the trustee to vote on their behalf by way of a form of direction.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board.

Transfer of shares

There are no restrictions on the transfer of shares other than certain restrictions as set out in Company's Articles of Association.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares.

Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles of Association.

Audit information

The Directors who held office at the date of approval of this Directors' Report confirm that so far as they each are aware, there is no relevant audit information (being information needed by the auditors in connection with preparing their audit report), of which the Company's auditors are unaware, and each Director has taken all steps that he ought to have reasonably taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Following the Audit Committee conducting a tender of the provision of audit services during 2012, KPMG Audit Plc was appointed as auditors in June 2012. Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended and the Board has approved resolutions to be proposed at the forthcoming Annual General Meeting to appoint KPMG Audit Plc as auditors and to authorise the Directors to set their remuneration.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the Group and parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, and have adopted a control framework for application across the Group.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each Director confirms to the best of his knowledge that:

- the Group and parent company accounts, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors' Report comprising pages 2 to 88, and including the sections of the Annual Report and Accounts referred to in these pages, has been approved by the Board and signed on its behalf by:

Robert Welch
Company Secretary

25 March 2013

Registered Office
6th Floor, Cardinal Place
100 Victoria Street
London
SW1E 5JL

Registered in England and Wales No. 05180783

Financial Review

Basis of preparation

The financial information has been prepared in accordance with IFRS as adopted by the EU using accounting policies consistent with those applied in the consolidated financial statements for the year ended 31 December 2011.

As explained in note 37 of the consolidated financial statements, MKM is a separate business line of the Group, which was classified as held for sale throughout the prior year and continued to be treated as a discontinued operation for the year ended 31 December 2012. MKM was the only asset held for sale during 2012. In the prior year, MKM, Kazakhmys Petroleum and the Maikuben West coal mine were assets held for sale and were included within discontinued operations.

During 2012, EBITDA (excluding special items), a key performance indicator of the Group, has been redefined. The Group considers EBITDA to be a proxy for cash earnings from current trading performance. Consequently, the actuarial remeasurement charge recognised in the income statement in respect of the Group's disability benefits obligation has been excluded from EBITDA and instead, the actual disability benefits payments disbursed during the year have been deducted in arriving at EBITDA. A change in legislation in 2011 significantly increased the level of payments the Group is required to make to disabled current and former employees, and consequently the corresponding provision for the disability benefits obligation also increased. As the disability benefits obligation is remeasured on an ongoing basis and is subject to potential volatility arising from changes to actuarial assumptions, including expectations of future payment levels and the discount rate applied, the actuarial remeasurement charge in any particular period can often be unrepresentative of the cash payable in respect of that period. For the year ended 31 December 2011, the impact of this change is considered insignificant in the context of EBITDA and the consolidated financial statements as a whole, and therefore 2011 has not been restated. For the year ended 31 December 2012, the actuarial remeasurement charge of $190 million has been excluded from EBITDA and cash disbursements of $41 million have been deducted in arriving at EBITDA, such that a net amount relating to the non-cash component of the disability benefits obligation of $149 million has been excluded from EBITDA.

Income statement

An analysis of the consolidated income statement is shown below:

$ million (unless otherwise stated)	2012	2011
Continuing operations		
Revenues	**3,353**	3,563
Operating costs (excluding the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, MET and special items)	**(2,226)**	(1,791)
EBITDA from subsidiaries (excluding special items)	**1,127**	1,772
EBITDA from joint venture (excluding special items)	**189**	154
Segmental EBITDA (excluding special items) from continuing operations	**1,316**	1,926
Less: interest and taxes of joint venture	**(29)**	(26)
Special items:		
Less: additional disability benefits obligation charge	**–**	(146)
Less: impairment charge against property, plant and equipment	**(110)**	(11)
Less: impairment (charge)/reversal against mining assets	**(82)**	7
Add: provisions released against inventories	**–**	19
Less: loss on disposal of subsidiary	**(8)**	–
Less: MET	**(260)**	(280)
Less: non-cash component of the disability benefits obligation	**(149)**	–
Less: depreciation, depletion and amortisation	**(310)**	(264)
Operating profit	**368**	1,225
Results from associate	**(2,481)**	466
Share of (losses)/profits from associate	**(258)**	466
Less: impairment charge against investment in associate	**(2,223)**	–
(Loss)/profit before finance items and taxation	**(2,113)**	1,691
Net finance expenses	**(91)**	(68)
(Loss)/profit before taxation	**(2,204)**	1,623
Income tax expense	**(86)**	(221)
(Loss)/profit for the year from continuing operations	**(2,290)**	1,402
Discontinued operations		
Profit/(loss) for the year from discontinued operations	**20**	(472)
(Loss)/profit for the year	**(2,270)**	930
Non-controlling interests	**(1)**	–
(Loss)/profit attributable to equity holders of the Company	**(2,271)**	930
EPS – basic and diluted ($)		
From continuing operations	**(4.37)**	2.63
From discontinued operations	**0.04**	(0.88)
	(4.33)	1.75
EPS based on Underlying Profit ($)		
From continuing operations	**0.85**	2.76
From discontinued operations	**0.09**	0.04
	0.94	2.80

Revenues

The Group's revenues of $3,353 million are 6% lower than the $3,563 million achieved in the year ended 31 December 2011, following a decline in the realised price and sales volumes of copper cathode at Kazakhmys Mining. The lower cathode sales volumes were attributable to the decline in production volumes and an increase in finished goods inventory across the year. The fall in copper revenues, the Group's principal product, was partially offset by an increase in by-product revenues, particularly gold, which benefitted from the sale of inventory accumulated in the second half of 2011.

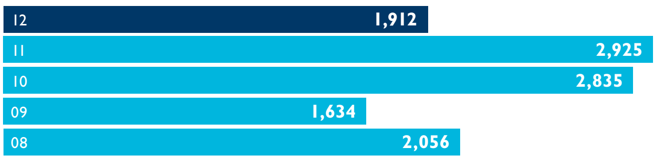
EBITDA (excluding special items) by operating segment

EBITDA (excluding special items) has been chosen as the key measure in assessing the underlying trading performance of the Group. This performance measure removes the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, MET and those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the Group.

The Directors believe that the exclusion of MET provides a more informed measure of the operational profitability of the Group given the nature of the tax as further explained in the 'Taxation' section.

Following the sale of Kazakhmys Petroleum in December 2011, the Group is now managed in three separate business units: Kazakhmys Mining, Kazakhmys Power and MKM.

EBITDA (excluding special items) ($ million)



A reconciliation of Group EBITDA (excluding special items) by operating segment is shown below:

$ million	2012	2011
Continuing operations		
Kazakhmys Mining	**1,160**	1,808
Kazakhmys Power[1]	**208**	168
Corporate services	**(52)**	(50)
Total continuing operations	**1,316**	1,926
Discontinued operations		
MKM	**48**	26
Kazakhmys Power[2]	**–**	8
Kazakhmys Petroleum	**–**	(1)
Total discontinued operations	**48**	33
Segmental EBITDA (excluding special items)	**1,364**	1,959
Share of EBITDA of associate[3]	**548**	966
Group EBITDA (excluding special items)	**1,912**	2,925

[1] Kazakhmys Power includes the Group's share of EBITDA (excluding special items) of the joint venture, Ekibastuz GRES-1, and the Group's captive power stations.

[2] In the year ended 31 December 2011, Kazakhmys Power included the EBITDA (excluding special items) of the Maikuben West coal mine for the period to 17 May 2011, the date on which it was sold.

[3] The share of EBITDA (excluding special items) of associate excludes MET of the associate.

Segmental EBITDA (excluding special items) of $1,364 million was 30% lower than the prior year, principally as a decline in revenues and higher costs led to a fall in the EBITDA contribution from Kazakhmys Mining which was $1,160 million in 2012 compared to $1,808 million in the prior year.

The EBITDA contribution of Kazakhmys Power from continuing operations increased to $208 million from $168 million in 2011, due to the growth in revenues, which benefitted from higher ceiling tariffs and demand, partially offset by rising input costs at the segment's largest asset, the Ekibastuz GRES-1 coal-fired power station.

EBITDA (excluding special items) from discontinued operations increased compared to the prior year, which included the Maikuben West coal mine until 17 May 2011. MKM's contribution improved from $26 million in 2011 to $48 million in 2012, as the results of the business were impacted by a positive IFRS inventory adjustment of $10 million which reflects the movement in copper prices through the year compared with a negative inventory adjustment of $14 million in 2011.

Group EBITDA (excluding special items) for the year was $1,912 million and $2,925 million in 2011. Included in Group EBITDA is the Group's share of EBITDA (excluding special items) of ENRC of $548 million based on its published unaudited results for the year ended 31 December 2012, a decrease from the $966 million recognised in the prior year.

Special items

Special items are non-recurring or variable in nature and do not impact the underlying trading of the Group. The principal special items recognised within continuing operations are:

Operating profit related special items:

2012

- The following impairment charges were recognised in 2012:
  - a charge of $162 million was recognised in respect of the Bozymchak gold/copper project in Kyrgyzstan. As a result of operational challenges experienced in Kyrgyzstan, the project is now expected to commence production later than envisaged, capital costs have been revised upwards and the risks associated with the project's execution have been reassessed. Following the impairment charge, which consists of $71 million against mining assets and $91 million against property, plant and equipment, the Bozymchak project has been recognised at its recoverable amount of $106 million as at 31 December 2012. Of the total Bozymchak impairment, $19 million relates to the impairment of capitalised borrowing costs;
  - within mining assets, a charge of $7 million was recognised relating to the write-down of the assets attributable to the Nikolayevsky mine which was suspended in August 2012 as it was no longer considered economically viable to operate this mine; and
  - a charge of $11 million has been recognised against property, plant and equipment relating to transportation infrastructure owned by the Group following a change in the intended use of the assets and a reassessment of their future cash flows.
- In early 2012, Kazakhmys Mining disposed of its captive insurance company in Kazakhstan and recognised a loss on the sale of this subsidiary of $8 million.

2011

- The Government of Kazakhstan enacted new legislation which significantly increased the entitlements payable to current and former employees who suffer a work-related injury. Based on a reassessment of the potential future costs associated with meeting this additional disability benefits obligation, Kazakhmys Mining recognised a charge of $172 million in 2011, of which $146 million related solely to the impact of the changes in the legislation and was treated as a special item; and
- The following impairment charges were recognised in 2011:
  - a charge of $11 million which primarily related to the impairment of administrative land and buildings within Kazakhmys Mining which were not in use;
  - a credit of $7 million which mainly related to a reversal of impairment provisions held against mining assets previously considered uneconomic in prior years and which have since been actively prepared for future extraction due to higher commodity prices; and
  - a $19 million release of an impairment provision held against minor by-product inventories within Kazakhmys Mining to reflect improved market conditions for those by-products.

Tax related special items:

2012

- In 2012, following the Supreme Court's ruling relating to Kazakhmys Mining's status as an EPT payer, the tax authorities have reimbursed $60 million of past EPT payments in respect of the period from 2006 to 2008, inclusive. The reimbursement has been set-off against the income tax and MET liabilities for the 2012 financial year. EPT is a tax on profits and was originally recognised as a tax charge during those periods, consequently the reimbursement has also been recognised as a credit in the tax charge, as a special item; and
- As the impairment of the Bozymchak asset was treated as a special item, the related tax impact of this impairment, a deferred tax credit of $13 million, has also been treated as a special item. The deferred tax credit has been recognised at 10%, being the statutory rate in Kyrgyzstan.

2011

- The additional disability benefits obligation recognised in the year of $172 million, of which $146 million was treated as a special item, is deductible against taxable profits in the future when the disability payments are made. As a result, a deferred tax asset was recognised in respect of the obligation, with $29 million in respect of the $146 million charge treated as a special item; and
- In 2011, the Group determined that the cost of delivering the major social projects in Kazakhstan will be deductible against taxable profits in the future, resulting in the recognition of a $26 million deferred tax asset at 31 December 2011. As the cost of these projects was considered a special item in 2010, the related tax credit was also treated as a special item.

Total special items within operating profit for continuing operations in 2012 amounted to $200 million compared to $131 million in 2011. Special items within operating profit in respect of discontinued operations of $30 million (2011: $497 million) principally relate to the impairment charge recognised to reduce MKM's carrying value to the net expected proceeds arising from a prospective sale and the final completion adjustment in respect of the disposal of Kazakhmys Petroleum. In 2011, along with the impairment of MKM, the special items in respect of discontinued operations also included the disposal of Kazakhmys Petroleum and the Maikuben West coal mine, part of Kazakhmys Power. These special items are discussed within the 'Discontinued Operations' section below.

Associate

The share of earnings from the Group's associate, ENRC, recognised in the consolidated income statement for the year ended 31 December 2012, net of tax, is $258 million based on the unaudited results of ENRC for the year which were published on 20 March 2013. The share of earnings from ENRC fell following lower commodity prices for ENRC's major product lines in the year and impairment charges recognised by ENRC of $1,216 million to reflect the recoverable amount of certain of their assets. In addition, the Group also recognised an impairment charge against the investment in ENRC of $2,223 million.

At 31 December 2012, the Group's 26% ENRC shareholding had a market value of $1,546 million (2011: $3,289 million) based on the public price quotation on the London Stock Exchange. The market value of the ENRC shareholding at the year end was significantly below the carrying value on the Group's balance sheet and consequently an impairment review of the investment was undertaken at 31 December 2012. Whilst the market value of the Group's investment in ENRC was below its carrying value at 31 December 2011 and 30 June 2012, the impairment reviews performed at those dates did not result in any impairment charges being recognised. However, since the impairment review performed at 30 June 2012, the price expectations and outlook for ENRC's key products has weakened, ENRC has announced a revised capital expenditure programme and in addition, ENRC's gearing levels have increased significantly. As a result, taking these developments into account, the impairment review performed in accordance with IAS 36 'Impairment of assets', concluded that an impairment charge of $2,223 million should be recognised at 31 December 2012. The impairment charge represents an impairment against the equity accounted value of the investment, which equated to £7.86 per share, and not the historic cost of the investment. Following this impairment charge, the Group's investment in ENRC is carried at £3.75 per share compared to the average cost price paid in the Group's stepped acquisitions of the shareholding of £5.75 per share.

Dividends received from ENRC of $59 million during 2012 (2011: $113 million) have not been recognised in the consolidated income statement, but are instead netted off against the carrying value of the investment in associate in the consolidated balance sheet, in accordance with equity accounting principles.

Net finance expenses

Finance expenses from continuing operations for the year, excluding foreign exchange movements, interest on employee obligations and the discount on the unwinding of long-term provisions, were $118 million compared to $70 million in the prior year. The increase in the finance expense reflects a larger outstanding principal balance under the CDB/Samruk-Kazyna financing facilities which carry interest at US$ LIBOR plus 4.80%. The pre-export debt facility, which attracted interest at US$ LIBOR plus 1.25%, was fully repaid during the year with final repayment in December 2012.

For the year ended 31 December 2012, $39 million of the total $118 million interest charged under the CDB/Samruk-Kazyna financing facilities was capitalised to the development projects, Bozshakol and Bozymchak, an increase of $11 million over the costs capitalised in 2011.

Taxation

The table below shows the Group's effective tax rate as well as the all-in effective tax rate which takes into account the impact of MET and removes the effect of special items and non-recurring items on the Group's tax charge. The all-in effective tax rate excludes the effect of equity accounted earnings as these are derived from businesses that are not controlled by the Group and which are included in the consolidated income statement on a post-tax basis.

$ million (unless otherwise stated)	2012	2011
(Loss)/profit before taxation from continuing operations	**(2,204)**	1,623
Add: MET	**260**	280
Add: special items	**2,423**	131
Less: share of profits from joint venture	**(126)**	(100)
Less: share of losses/(profits) from associate	**258**	(466)
Adjusted profit before taxation from continuing operations	**611**	1,468
Income tax expense	**86**	221
Add: MET	**260**	280
Add: refund of previous EPT payments	**60**	
Add: deferred tax asset on impairment of Bozymchak	**13**	–
Add: deferred tax asset on additional disability benefits obligation	**–**	29
Add: deferred tax asset on major social projects	**–**	26
Add: tax effect of special items	**–**	2
Adjusted tax expense from continuing operations	**419**	558
Effective tax rate (%)	**(3.9)**	13.6
All-in effective tax rate[1] (%)	**68.6**	38.0

[1] All-in effective tax rate is calculated as the income tax expense plus MET less the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for MET, special items, other non-recurring items and the share of profits from the joint venture and associate.

Effective and all-in effective tax rate

Following the impairment charge recognised against the ENRC investment of $2,223 million, the Group made a loss before taxation of $2,204 million for the year compared to a profit before taxation of $1,623 million in 2011. The effective tax rate was (3.9)% compared to 13.6% in 2011. As there is no tax relief available on the ENRC impairment charge, the impairment has put the Group into a loss making position without a corresponding tax credit, thereby raising the Group's effective tax rate. Other items that negatively impact the effective tax rate include non-deductible items, such as other asset impairment losses, and an increased proportion of non-deductible business expenses, the write-off of certain deferred tax assets relating to brought forward tax losses and the transfer pricing provision recognised for the current and prior years. The upward pressure on the effective tax rate from the non-deductible and other items was offset by a refund of EPT of $60 million received during the year and the contribution from Ekibastuz GRES-1, whose earnings are included in the consolidated income statement on a post-tax basis.

Excluding the special items and the contribution from the equity accounted joint venture and associate, the Group's adjusted profit before taxation was 58.4% lower than the prior year, whilst the adjusted tax expense, including MET, was only 24.9% below the prior year. As a result, the all-in effective tax rate, which is a more representative tax rate on the recurring profits of the Group's subsidiary businesses, increased from 38.0% in 2011 to 68.6%, principally due to the MET charge. MET is determined independently of the profitability of the operations, so whilst profits decreased significantly, the MET charge only fell by 7.1% over the year. The MET charge represents a much higher proportion of profit before tax and adjusted profits before tax, thereby placing upward pressure on the all-in effective tax rate.

Mineral extraction tax

MET is similar to a revenue based tax and is derived from the volume and metal content of extracted ore and global commodity prices. During 2012, the impact of lower commodity prices was partially offset by an increase in the quantity of metal extracted by Kazakhmys Mining leading to a decrease in the MET expense, within cost of sales, from $280 million in 2011 to $260 million, a decrease of 7.1%.

Excess profits taxation

In 2012, following a favourable ruling by the Supreme Court, the Group lodged a claim with the Ministry of Finance to seek reimbursement of past EPT payments amounting to $108 million for the periods up to and including 2008. In the second half of 2012, the Ministry of Finance partially accepted the Group's claim and $60 million has been set-off against the income tax and MET liabilities in respect of the 2012 financial year. Of the total claim of $108 million, the tax authorities are challenging the remaining $48 million which they believe relates to periods beyond the statute of limitations in Kazakhstan. The Group is taking legal action to recover the outstanding balance, however, sufficient uncertainty exists such that the $48 million has not been recognised as an asset in the consolidated financial statements.

Transfer pricing

A provision of $6 million has been recognised as at 31 December 2012 (2011: $26 million) for transfer pricing exposures, principally where external and intercompany sales contracts entered into during the year resulted in certain of the Group's profits being taxed twice in the UK and Kazakhstan due to inconsistencies between the transfer pricing legislation of both jurisdictions. Additionally, further transfer pricing exposures exist on certain sales contracts entered into with European and Russian customers which include trading terms that are not fully acceptable under Kazakhstan transfer pricing legislation.

Non-deductible items

The tax impact of non-deductible items was $53 million in 2012 (2011: $38 million) primarily relating to ongoing non-deductible business expenses and impairment losses at Kazakhmys Mining. These non-deductible items were partially offset by the non-taxable reversal of the provision for environmental pollution charges of $38 million which was released during the year.

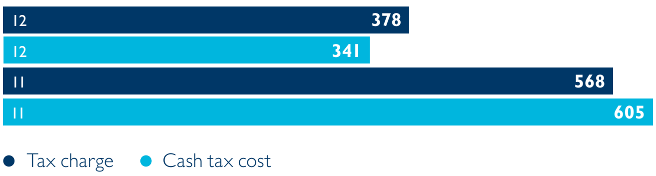
Equity accounted earnings

The Group's interests in the earnings of ENRC and Ekibastuz GRES-1 are included, net of tax, in the consolidated income statement in arriving at profit before taxation.

Future tax rates

Future tax rates are materially affected by the application of CIT and MET, and the relative contribution to the Group's profits from the equity accounted earnings from ENRC and Ekibastuz GRES-1 which are recognised on a post-tax basis. The CIT rate in Kazakhstan is 20% however, the Group's all-in effective tax rate will be dependent on copper prices in the future given the revenue based nature of MET.

Tax charge and cash tax cost ($ million)



Discontinued operations

$ million	2012	2011
MKM		
Profit before tax excluding impairment losses	**44**	18
Taxation credit	**7**	3
Impairment losses	**(18)**	(9)
Profit for the year	**33**	12
Kazakhmys Petroleum		
Loss before tax excluding impairment losses and loss on disposal	**–**	(4)
Loss on disposal	**(13)**	(24)
Taxation credit	**–**	1
Impairment loss on remeasurement to fair value	**–**	(444)
Loss for the year	**(13)**	(471)
Kazakhmys Power		
Profit before tax excluding impairment losses and loss on disposal	**–**	8
Loss on disposal	**–**	(20)
Taxation charge	**–**	(1)
Loss for the year	**–**	(13)
Profit/(loss) for the year from discontinued operations	**20**	(472)

The discontinued operations of the Group for the year ended 31 December 2012 include the post-tax results of MKM for the full year, whilst the comparative year also includes Kazakhmys Petroleum which was sold on 23 December 2011, and the Maikuben West coal mine for the period to 17 May 2011, the date on which the business was sold.

Discontinued operations contributed a post-tax profit of $20 million, comprising MKM's profit for the period of $33 million and a $13 million loss representing the final completion price adjustment arising from the disposal of Kazakhmys Petroleum. The prior year post-tax loss of $472 million included the loss recognised on the sale of the Maikuben West coal mine of $20 million, the loss on disposal of Kazakhmys Petroleum of $24 million and the impairment loss of $444 million recognised to remeasure Kazakhmys Petroleum to fair value.

MKM's contribution to the profit for the year from discontinued operations has increased from $12 million in 2011 to $33 million for the year ended 31 December 2012. The improved profit for the year from MKM is principally due to the positive IFRS inventory adjustment of $10 million (2011: negative $14 million) as well as the reversal of an historic tax provision of $9 million relating to the restructuring of the business within the Group in 2007. The provision is no longer considered necessary following the results of the recent tax audits completed for the period 2006 to 2008, inclusive.

Underlying Profit

The reconciliation of Underlying Profit from profit attributable to equity holders of the Company is set out below:

$ million	2012	2011
Net (loss)/profit attributable to equity holders of the Company from continuing operations	**(2,291)**	1,402
Special items:		
Subsidiary businesses		
Additional disability benefits obligation charge	**–**	146
Impairment charge against property, plant and equipment	**110**	11
Impairment charge/(reversal) against mining assets	**82**	(7)
Provisions released against inventories	**–**	(19)
Loss on disposal of subsidiary	**8**	–
Impairment charge against investment in associate	**2,223**	–
Associate		
Impairment charge recognised by associate	**316**	–
Onerous contract provision	**85**	–
Net gain arising from business combinations	**(23)**	–
Acquisition related transaction costs/(credit)	**7**	(1)
Tax effect of non-recurring items		
Subsidiary businesses	**–**	(2)
Change in current and deferred tax liabilities		
Refund of past EPT payments	**(60)**	–
Recognition of a deferred tax asset resulting from the impairment of Bozymchak	**(13)**	–
Deferred tax asset on additional disability benefits obligation	**–**	(29)
Deferred tax asset on major social projects	**–**	(26)
Underlying Profit from continuing operations	**444**	1,475
Net profit/(loss) attributable to equity holders of the Company from discontinued operations	**20**	(472)
Special items:		
Impairment charge against intangible assets – Kazakhmys Petroleum	**–**	444
Impairment charge against property, plant and equipment – MKM	**3**	1
Provisions against inventories – MKM	**14**	8
Loss on disposal of subsidiaries	**13**	44
Release of deferred tax liabilities resulting from impairment charges	**(2)**	(2)
Underlying Profit from discontinued operations	**48**	23
Total Underlying Profit	**492**	1,498

The Group's net loss attributable to equity holders of the Company from continuing operations was $2,291 million for the year ended 31 December 2012, down from a profit of $1,402 million in the prior year, principally due to the impairment recognised against the carrying value of the Group's investment in ENRC of $2,223 million. Excluding impairment charges and other special items, Underlying Profit for the year was $444 million from continuing operations and $48 million from discontinued operations, with the total Underlying Profit being $492 million.

Earnings per share

$ million (unless otherwise stated)	2012	2011
Net (loss)/profit attributable to equity holders of the Company	**(2,271)**	930
Total Underlying Profit	**492**	1,498
Weighted average number of shares in issue (million)	**524**	534
EPS – basic and diluted ($)	**(4.33)**	1.75
EPS based on Underlying Profit ($)	**0.94**	2.80

Basic earnings per share from continuing and discontinued operations was a loss of $4.33 per share taking into account the impairment of ENRC, compared to a profit of $1.75 in the prior year. Earnings per share based on Underlying Profit decreased to $0.94 for the year ended 31 December 2012 from $2.80 in the prior year.

The share buy-back programme which commenced in September 2011 and completed in May 2012 led to a decrease in the weighted average number of shares in issue in 2012.

Key financial indicators

The definitions of our key financial indicators are shown in the Glossary and these measures, on a total Group basis including continuing and discontinued operations, are set out below:

	2012	2011
Group EBITDA (excluding special items) ($ million)	**1,912**	2,925
EPS based on Underlying Profit ($)	**0.94**	2.80
Free Cash Flow ($ million)	**85**	824
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	**174**	114

Dividends

The policy established at the time of Listing was for the Company to maintain a dividend policy which took into account the profitability of the business and underlying growth in earnings of the Group, as well as its cash flows and growth requirements. The Directors would also ensure that dividend cover is prudently maintained. Interim and final dividends will be paid in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively. Share buy-backs and special dividends have been used in addition to the ordinary dividend to return surplus funds to shareholders.

In the second half of 2011, the Directors announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. In 2011, 5.6 million shares were purchased, with a further 6.1 million purchased in 2012, at a total cost of $166 million, representing 2.2% of the Company's shares in issue at the commencement of the programme. The Company's authority for this share buy-back programme expired in May 2012 and the Company did not seek its renewal.

The Directors recommend a final dividend for 2012 of 8.0 US cents per share, which together with the interim ordinary dividend of 3.0 US cents per share, gives a total full year dividend of 11.0 US cents per share (2011: 28.0 US cents per share), based on the earnings for 2012. The total dividend reflects an approximate 12% payout ratio of the Group's full year Underlying Profits as adjusted for the removal of ENRC's and Ekibastuz GRES-1's equity accounted earnings but including dividends received from these businesses during the year. The decrease in the dividend from the prior year reflects the lower underlying profits of the Group and also acknowledges that in the near future the gearing of the Group is likely to increase given the development of the Group's major projects. The 2011 dividend also included an additional 5.0 US cents per share ($26.5 million) to the 12% payout ratio.

Subject to the approval of the shareholders at the Annual General Meeting to be held on 17 May 2013, the final dividend shall be paid on 21 May 2013.

Cash flows

A summary of cash flows is shown below:

$ million	2012	2011
Segmental EBITDA before joint venture and associate	**945**	1,221
Impairment losses	**220**	462
Non-cash component of the disability benefits obligation	**(149)**	–
Loss on disposal of assets	**23**	–
Dividends received from associate and joint venture	**87**	113
Working capital movements[1]	**64**	154
Interest paid	**(85)**	(66)
MET paid	**(199)**	(264)
Income tax paid	**(142)**	(341)
Foreign exchange and other movements	**(17)**	(35)
Net cash flows from operating activities before capital expenditure	**747**	1,244
Sustaining capital expenditure	**(662)**	(420)
Free Cash Flow	**85**	824
Expansionary and new project capital expenditure	**(567)**	(259)
Non-current VAT receivable associated with major projects	**(55)**	–
Major social projects	**(12)**	(36)
Interest received	**15**	9
Proceeds from disposal of property, plant and equipment	**51**	16
Proceeds from disposal of subsidiaries, net of cash disposed	**3**	111
Dividends paid	**(121)**	(129)
Purchase of own shares under the Group's share buy-back programme	**(88)**	(78)
Other movements	**(22)**	(21)
Cash flow movement in net (debt)/funds	**(711)**	437

1 Working capital movements exclude any accruals relating to MET and the movement in non-current VAT receivable incurred on capital expenditure relating to the major projects.

Summary of the year

Net cash flows from operating activities declined following the lower profitability of the Group coupled with higher interest payments and lower dividends received, which were partially offset by lower tax payments and a reduction in working capital requirements over the year.

Dividends received

In 2012 the Group received dividends of $59 million from ENRC and $28 million from the Ekibastuz GRES-1 joint venture compared to $113 million of dividends received from ENRC in 2011. The dividend received from ENRC in 2012 represents the 2011 final dividend and the 2012 interim dividend.

Working capital

The significant working capital movements over the year are explained below:

- overall inventory levels increased by $40 million as a decrease in the level of inventory at Kazakhmys Mining was offset by a rise in inventory levels at Kazakhmys Power and MKM. Lower finished goods at Kazakhmys Mining principally reflect the sale of 69 koz of gold bar inventory built up in the second half of 2011. All other finished goods, including copper cathode, reported higher inventory levels as production exceeded sales for the year. The finished goods movement was offset by larger raw material inventories which were impacted by higher input prices at Kazakhmys Mining and Kazakhmys Power. MKM's inventory levels reflect larger quantities on hand and the higher copper price compared to the prior year;
- prepayments and other current assets were $177 million higher in 2012, principally due to a $89 million increase in VAT receivable balances. The major reason for the increase is the delayed VAT refund from the Government due to various technical reasons and also there is a build-up of VAT receivable on the internal restructuring of assets within the Group;
- receivables decreased at Kazakhmys Mining by $52 million reflecting lower revenues and the timing of receipts; and
- trade and other payables and employee benefits increased by $278 million in 2012, mainly relating to Kazakhmys Mining. Of this increase, $168 million related to the disability benefits obligation that was reassessed following pay awards granted during the year, and $110 million was due to trade and other payables resulting principally from higher payables for auxiliary services and equipment purchases.

In the prior year, the working capital movement at Kazakhmys Mining related to an increase in inventory as there was a build-up of gold bar due to no sales taking place in the second half of the year following the restriction on exports imposed by the National Bank in July 2011, the increase in copper finished goods across the year and the impact of inflation on input prices of raw materials. There was also an increase in prepayments and advances paid due to the continued expenditure on the Group's development projects. Lower receivables reflecting the timing of sales and a significant increase in the disability benefits obligation offset the negative impact of the higher inventory, and prepayments and advances paid within Kazakhmys Mining. At MKM, a decrease in inventory levels and trade receivables driven by the lower copper prices experienced in the year were partially offset by lower accounts payable.

Interest cash flows

Interest paid during the year was $85 million, $19 million above the interest paid in 2011 of $66 million, primarily due to the higher average effective interest rate of 4.84% compared to 3.32% in 2011, on an increased level of debt outstanding during the period.

Income taxes and mineral extraction tax

Income tax payments of $142 million were lower than the prior year reflecting the fall in the Group's profitability. The income tax payments were lower than the income statement charge for current tax of $178 million. At 31 December 2012, the Group's net tax receivable position was $29 million compared to $64 million as at 31 December 2011 as the Group utilised part of the prior year's prepayment against the current year income tax charge.

MET payments of $199 million are lower than the income statement charge of $260 million as a result of past EPT payments of $56 million which the tax authorities agreed to set-off against MET liabilities for the 2012 financial year. At 31 December 2012, the MET payable balance of $71 million was comparable to the balance as at 31 December 2011.

Free Cash Flow

Lower MET and income tax payments and reduced working capital requirements partially offset the impact of lower earnings, higher sustaining capital expenditure and increased interest payments, which resulted in Free Cash Flow of $85 million, a decline from $824 million in the prior year.

Capital expenditure

Capital expenditure on sustaining the current business operations rose to $662 million from $420 million, and expansionary expenditure rose by $308 million as the Group invested in Bozshakol, Aktogay and the mid-sized projects. Total capital expenditure incurred in the year was $1,229 million, compared to $679 million for the year ended 31 December 2011.

Major social projects

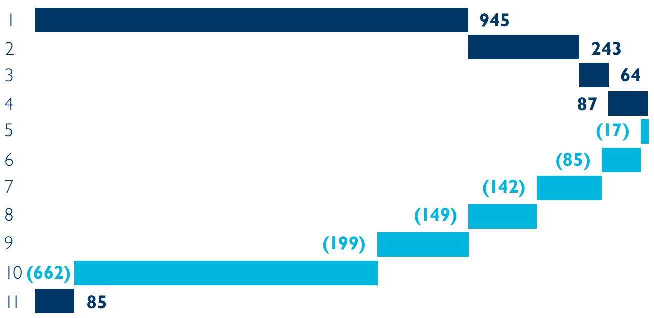
In 2012, the Group spent $12 million (2011: $36 million) as part of the Group's social development programme on major projects in Kazakhstan.

Investing cash flows

The most significant investing cash flows during 2012 related to the Group's share buy-back programme which commenced in September 2011 and completed in May 2012 and the payment of the Group's final dividend for 2011 and interim dividend for 2012. In addition, during the year the Group disposed of a number of assets for proceeds of $51 million, principally relating to the sale of two corporate aeroplanes for a total of $30 million.

During 2011, proceeds were received from the disposal of non-core businesses, Kazakhmys Petroleum and the Maikuben West coal mine, of $119 million and $3 million respectively. The net proceeds received were $111 million as the cash disposed within these businesses amounted to $11 million.

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



1 Segmental EBITDA
2 Write-offs, impairment losses and fixed assets disposal losses
3 Working capital movements
4 Dividends received from associate and joint venture
5 Foreign exchange and other movements
6 Interest paid
7 Income tax paid
8 Non-cash component of the disability benefits obligation
9 MET paid
10 Sustaining capital expenditure
11 Free Cash Flow

Balance sheet

Summary of movements

The Group's attributable loss for the year, returns to shareholders during the year, including the share buy-back programme, and a non-cash loss of $92 million mainly recognised in the foreign currency translation reserve, have led to a $2,566 million decrease in equity attributable to holders of the Company to $6,259 million at 31 December 2012.

The Group's capital employed position at 31 December 2012 is shown below:

$ million	2012	2011
Equity attributable to owners of the Company	**6,259**	8,825
Non-controlling interests	**6**	7
Borrowings	**2,468**	1,893
Capital employed	**8,733**	10,725

ENRC

The Group's 26% investment in ENRC had a carrying value of $2,027 million at 31 December 2012 compared to $4,600 million at 31 December 2011. The decline in the carrying value has arisen due to the impairment charge recognised by the Group of $2,223 million, and a decrease in the Group's share of ENRC's earnings as ENRC's profits fell following depressed commodity prices and impairment charges and an onerous contract provision recognised by ENRC of $1,544 million. In addition, also recognised against the carrying value are the Group's share of earnings of ENRC recognised directly in equity of $33 million and the $59 million dividend received from ENRC. The Group's carrying value of ENRC equates to £3.75 per share which compares to the ENRC share price at 25 March 2013 of £2.68 per share.

Ekibastuz GRES-1 (Kazakhmys Power)

The investment in the Ekibastuz GRES-1 joint venture is included on the Group's consolidated balance sheet at a carrying value of $927 million at 31 December 2012. The increase in the carrying value from 31 December 2011 represents the Group's share of the post-tax profits of $126 million which was offset by a dividend received in June 2012 of $28 million and the Group's share of losses recognised in equity of $9 million.

Net debt

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

$ million	2012	2011
Cash and cash equivalents	**1,246**	1,102
Current investments	**515**	810
Borrowings	**(2,468)**	(1,893)
Net (debt)/funds[1]	**(707)**	19

[1] Excludes MKM and Ekibastuz GRES-1.

Cash and short-term deposits of the Group's continuing businesses as at 31 December 2012 were $1,246 million, an increase over the $1,102 million as at 31 December 2011 principally due to the additional draw downs under the CDB/Samruk-Kazyna financing facilities partially being offset by repayments of the principal under the pre-export debt finance facility. Of the cash and cash equivalents and current investments, approximately $1,545 million has been drawn under the CDB/Samruk-Kazyna financing facilities and is intended to be used for the development of the Group's projects under the terms of the individual facility agreements. Current investments are cash deposits with a three to six month maturity profile.

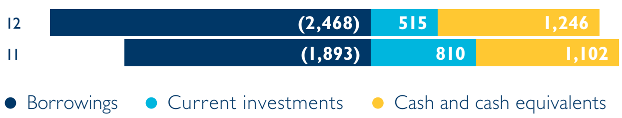
In order to manage counterparty and liquidity risk, surplus funds within the Group are held predominantly in the UK and funds remaining in Kazakhstan are utilised mainly for working capital purposes. The funds within the UK are held primarily with major European and US financial institutions and triple-'A' rated liquidity funds. At 31 December 2012, $1,636 million of cash and short-term deposits were held in the UK, with $125 million being held in Kazakhstan.

Gross borrowings of the Group's continuing operations increased from $1,893 million at 31 December 2011 to $2,468 million at 31 December 2012, following the repayment of the pre-export debt finance facility in full of $614 million being offset by $1,200 million drawn down under the CDB/Samruk-Kazyna financing facilities, less arrangement fees of $18 million. The Group was in a net debt position of $707 million at 31 December 2012 compared to a net funds position of $19 million at 31 December 2011.

Borrowings under the CDB/Samruk-Kazyna financing facilities were $2,468 million compared to $1,281 million at 31 December 2011. Of the $2,500 million, excluding amortised fees, drawn down under the CDB/Samruk-Kazyna financing facilities, $2,000 million is intended for the development of the Bozshakol copper project, $300 million is intended for the development of the Bozymchak deposit in Kyrgyzstan, with $200 million intended for use on certain of the Group's mid-sized development projects. A further $200 million under these financing facilities was drawn down in January 2013, following which the full facility has been drawn down.

As at 31 December 2012, the Group had $300 million of revolving credit facilities available for standby liquidity and general corporate purposes. These facilities have remained undrawn since inception. In addition, in December 2012 the Group signed a five year pre-export finance facility for $1,000 million to be used for general corporate purposes. This facility was undrawn at 31 December 2012 and has an availability period of 12 months. Repayments commence in January 2015 and continue over 36 months. The interest rate for this facility is US$ LIBOR plus 2.80%.

Analysis of net debt ($ million)



Taxation

Tax strategy and risk management

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

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

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

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

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

Total tax contribution

During 2012, the Group (including 100% of the joint venture, Ekibastuz GRES-1) paid $772 million (2011: $932 million) in taxes across the countries in which it has a presence. Company taxes, such as corporate income taxes, MET, environmental taxes and employer taxes, comprised $607 million (2011: $822 million) of this total. In addition, the Group indirectly contributed $165 million (2011: $110 million) in employee taxes and withholding taxes primarily on interest payments and dividends, which the Group collected on behalf of government authorities and paid over to them.

$ million	Central Asia[1]	UK	Germany	**2012 total**	2011 total
Taxes paid					
Corporate income taxes	201	7	1	**209**	398
MET	199	–	–	**199**	264
Payroll taxes (employer's obligations)	66	2	10	**78**	59
Customs and stamp duties	30	–	–	**30**	26
Taxes on properties	22	–	–	**22**	22
Environmental payments	66	–	–	**66**	47
Miscellaneous taxes	2	–	1	**3**	6
	586	**9**	**12**	**607**	822
Taxes collected and remitted					
Withholding taxes on dividends, interest and services	23	–	–	**23**	6
Payroll taxes (employee's obligations)	117	6	19	**143**	104
	140	**6**	**19**	**165**	110
Total	**726**	**15**	**31**	**772**	932

[1] Includes Kazakhstan and Kyrgyzstan and 100% of the Ekibastuz GRES-1 joint venture for the year.

Independent Auditor's Report to the members of Kazakhmys PLC

We have audited the financial statements of Kazakhmys PLC for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of cash flows and the Consolidated and Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company's financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 76, in relation to going concern;
- the part of the Governance Framework report included in the Directors' Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Jimmy Daboo (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

25 March 2013

Financial Statements

Photo: Bozshakol development work

Contents

Consolidated income statement
Year ended 31 December 2012

$ million (unless otherwise stated)	Notes	2012	2011
Continuing operations			
Revenues	4(b)	**3,353**	3,563
Cost of sales	6(a)	**(2,023)**	(1,619)
Gross profit		**1,330**	1,944
Selling and distribution expenses	6(b)	**(64)**	(64)
Administrative expenses	6(c)	**(805)**	(751)
Net operating (expense)/income	6(d)	**(17)**	5
Impairment losses	7	**(202)**	(9)
Share of profits from joint venture	18	**126**	100
Operating profit		**368**	1,225
Results from associate		**(2,481)**	466
Share of (losses)/profits from associate	19	**(258)**	466
Less: impairment charge against investment in associate	19	**(2,223)**	–
(Loss)/profit before finance items and taxation		**(2,113)**	1,691
Analysed as:			
Profit before finance items and taxation (excluding special items)		**695**	1,823
Special items	5	**(2,808)**	(130)
Finance income	11	**64**	69
Finance costs	11	**(155)**	(137)
(Loss)/profit before taxation		**(2,204)**	1,623
Income tax expense	12(a)	**(86)**	(221)
(Loss)/profit for the year from continuing operations		**(2,290)**	1,402
Discontinued operations			
Profit/(loss) for the year from discontinued operations	37(d)	**20**	(472)
(Loss)/profit for the year		**(2,270)**	930
Attributable to:			
Equity holders of the Company		**(2,271)**	930
Non-controlling interests		**1**	–
		(2,270)	930
Earnings per share attributable to equity holders of the Company – basic and diluted			
From continuing operations ($)	13(a)	**(4.37)**	2.63
From discontinued operations ($)	13(a)	**0.04**	(0.88)
		(4.33)	1.75
EPS based on Underlying Profit – basic and diluted			
From continuing operations ($)	13(b)	**0.85**	2.76
From discontinued operations ($)	13(b)	**0.09**	0.04
		0.94	2.80

Consolidated statement of comprehensive income
Year ended 31 December 2012

$ million	Notes	2012	2011
(Loss)/profit for the year		**(2,270)**	930
Other comprehensive (expense)/income for the year after tax:			
Exchange differences on retranslation of foreign operations		**(50)**	(21)
Recycling of exchange differences on disposal of subsidiary		**–**	33
Share of other comprehensive losses of joint venture	18	**(9)**	(4)
Share of other comprehensive losses of associate	19	**(33)**	(109)
Other comprehensive expense for the year		**(92)**	(101)
Total comprehensive (expense)/income for the year		**(2,362)**	829
Attributable to:			
Equity holders of the Company		**(2,363)**	829
Non-controlling interests		**1**	–
		(2,362)	829

Consolidated balance sheet
At 31 December 2012

$ million	Notes	2012	2011
Assets			
Non-current assets			
Intangible assets	15	**64**	53
Property, plant and equipment	16	**2,448**	2,163
Mining assets	17	**614**	537
Investment in joint venture	18	**927**	838
Investment in associate	19	**2,027**	4,600
Other non-current assets	20	**532**	103
Deferred tax asset	12(b)	**87**	61
		6,699	8,355
Current assets			
Inventories	21	**750**	744
Prepayments and other current assets	22	**380**	227
Income taxes receivable		**30**	71
Trade and other receivables	23	**122**	190
Investments	24	**515**	810
Cash and cash equivalents	25	**1,246**	1,102
		3,043	3,144
Assets classified as held for sale	37(d)	**251**	232
		3,294	3,376
Total assets		**9,993**	11,731
Equity and liabilities			
Equity			
Share capital	26(a)	**200**	200
Share premium		**2,650**	2,650
Capital reserves	26(c)	**(932)**	(840)
Retained earnings		**4,341**	6,815
Attributable to equity holders of the Company		**6,259**	8,825
Non-controlling interests		**6**	7
Total equity		**6,265**	8,832
Non-current liabilities			
Borrowings	27	**2,439**	1,368
Deferred tax liability	12(b)	**1**	6
Employee benefits	28	**330**	188
Provisions	29	**100**	86
		2,870	1,648
Current liabilities			
Trade and other payables	30	**622**	499
Borrowings	27	**29**	525
Income taxes payable		**1**	7
Employee benefits	28	**43**	23
Provisions	29	**5**	43
		700	1,097
Liabilities directly associated with assets classified as held for sale	37(d)	**158**	154
		858	1,251
Total liabilities		**3,728**	2,899
Total equity and liabilities		**9,993**	11,731

These financial statements were approved by the Board of Directors on 25 March 2013.

Signed on behalf of the Board of Directors

Oleg Novachuk
Chief Executive Officer

Matthew Hird
Chief Financial Officer

Consolidated statement of cash flows
Year ended 31 December 2012

$ million	Notes	2012	2011
Cash flows from operating activities			
Cash inflow from operations before interest, income taxes and dividends from associate and joint venture	31	**832**	1,538
Interest paid		**(85)**	(66)
Income taxes paid		**(142)**	(341)
Dividends from associate and joint venture		**87**	113
Net cash inflow from operating activities		**692**	1,244
Cash flows from investing activities			
Interest received		**15**	9
Proceeds from disposal of property, plant, and equipment and mining assets		**51**	16
Purchase of intangible assets		**(13)**	(8)
Purchase of property, plant and equipment		**(1,019)**	(589)
Investments in mining assets		**(209)**	(118)
Licence payments for subsoil contracts		**(5)**	(7)
Acquisition of non-current investments		**(15)**	(1)
Acquisition of non-controlling interest in subsidiary	26(a)	**(2)**	(8)
Movement in short-term bank deposits	32	**282**	(454)
Cash received in relation to disposal of subsidiaries		**3**	111
Net cash flows used in investing activities		**(912)**	(1,049)
Cash flows from financing activities			
Purchase of own shares under the Group's employee share-based payment plans		**–**	(5)
Purchase of own shares under the Group's share buy-back programme		**(88)**	(78)
Proceeds from borrowings – net of arrangement fees paid of $18 million (2011: $8 million)		**1,183**	592
Repayment of borrowings		**(614)**	(595)
Dividends paid by the Company	14(a)	**(121)**	(129)
Net cash flows from/(used in) financing activities		**360**	(215)
Net increase/(decrease) in cash and cash equivalents	32	**140**	(20)
Cash and cash equivalents at the beginning of the year		**1,111**	1,126
Effect of exchange rate changes on cash and cash equivalents	32	**(1)**	5
Cash and cash equivalents at the end of the year	25	**1,250**	1,111

The consolidated statement of cash flows includes cash flows from both continuing and discontinued operations.

Consolidated statement of changes in equity
Year ended 31 December 2012

$ million	Notes	Share capital	Share premium	Capital reserves[1]	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to equity holders of the Company						
At 1 January 2011		200	2,648	(739)	6,097	8,206	13	8,219
Profit for the year		–	–	–	930	930	–	930
Exchange differences on retranslation of foreign operations		–	–	(21)	–	(21)	–	(21)
Recycling of exchange differences on disposal of subsidiary		–	–	33	–	33	–	33
Share of losses of joint venture recognised in other comprehensive income	18	–	–	(4)	–	(4)	–	(4)
Share of losses of associate recognised in other comprehensive income	19	–	–	(109)	–	(109)	–	(109)
Total comprehensive income for the year		–	–	(101)	930	829	–	829
Acquisition of non-controlling interest in subsidiary	26(a)	–	2	–	(4)	(2)	(6)	(8)
Share-based payment	38	–	–	–	4	4	–	4
Own shares acquired under the Group's share buy-back programme	26(b)	–	–	–	(78)	(78)	–	(78)
Own shares acquired under the Group's employee share-based payment plans	26(b)	–	–	–	(5)	(5)	–	(5)
Dividends paid by the Company	14(a)	–	–	–	(129)	(129)	–	(129)
At 31 December 2011		200	2,650	(840)	6,815	8,825	7	8,832
Loss for the year		**–**	**–**	**–**	**(2,271)**	**(2,271)**	**1**	**(2,270)**
Exchange differences on retranslation of foreign operations		**–**	**–**	**(50)**	**–**	**(50)**	**–**	**(50)**
Share of losses of joint venture recognised in other comprehensive income	18	**–**	**–**	**(9)**	**–**	**(9)**	**–**	**(9)**
Share of losses of associate recognised in other comprehensive income	19	**–**	**–**	**(33)**	**–**	**(33)**	**–**	**(33)**
Total comprehensive income for the year		**–**	**–**	**(92)**	**(2,271)**	**(2,363)**	**1**	**(2,362)**
Acquisition of non-controlling interest in subsidiary	26(a)	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Share-based payment	38	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Own shares acquired under the Group's share buy-back programme	26(b)	**–**	**–**	**–**	**(88)**	**(88)**	**–**	**(88)**
Dividends paid by the Company	14(a)	**–**	**–**	**–**	**(121)**	**(121)**	**–**	**(121)**
At 31 December 2012		**200**	**2,650**	**(932)**	**4,341**	**6,259**	**6**	**6,265**

[1] Refer to note 26(c) for an analysis of 'Capital reserves'.

1. Corporate information

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

The Group operates in the natural resources industry. The Group's operations are primarily conducted through the Company's principal division, Kazakhmys Mining, whose major business is the mining and processing of copper ore into copper cathodes and copper rods, and the refining and sale of precious metals and other by-products of its copper mining process.

The Group operates in three divisions within the natural resources sector, the principal activities of which were as follows during the year ended 31 December 2012:

Operating division	Principal activity	Primary country of operations
Kazakhmys Mining	Mining and processing copper and other metals	Kazakhstan
MKM	Copper processing	Germany
Kazakhmys Power	Power generation	Kazakhstan

An entity within Kazakhmys Power, the Maikuben West coal mine (for the period until 17 May 2011, the date of its disposal), MKM (for the 12 month periods ended 31 December 2012 and 31 December 2011) and Kazakhmys Petroleum (for the period until 23 December 2011, the date of its disposal) are included as discontinued operations within the consolidated financial statements (see note 37).

The legal names of the constituent companies within the above divisions are shown in note 39(n) on page 154.

2. Basis of preparation

The financial statements set out on pages 92 to 154 have been prepared using consistent accounting policies. The Company has taken the exemption under section 408 of the Companies Act 2006 and has not published the Company's income statement and related notes.

(a) Going concern

The Group's business activities, together with the factors likely to impact its future growth and operating performance are set out in the Operating Review on pages 28 to 41. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial Review on pages 78 to 88. In addition, note 33 commencing on page 134 sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to commodity prices, interest rates, foreign exchange and counterparties.

The Group generated Free Cash Flow of $85 million for the year, and at 31 December 2012, following expenditure on the major projects, the Group's net debt was $707 million with total undrawn committed facilities of $3.0 billion. During 2012, the Group continued to draw down under its $2.7 billion borrowing facility for the funding of the Group's major development project at Bozshakol and the gold/copper project at Bozymchak such that of this facility, $2.5 billion was drawn as at 31 December 2012. In December 2012, the Group repaid the outstanding balance under the $2.1 billion pre-export finance facility which was due to be fully repaid by February 2013. The maturity profile of the Group's outstanding debt is long dated with the total drawn balance of $2.5 billion repayable in maturities extending out for 15 years.

In December 2012 the Group signed a five year pre-export finance facility for $1.0 billion to provide additional liquidity during the period of the development of the major development projects at Bozshakol and Aktogay and for general corporate purposes. This facility was undrawn at 31 December 2012 and has an availability period of 12 months. When drawn, the principal repayments will amortise over a three year period commencing in January 2015 until final maturity in December 2017. In addition, the Group has $300 million of revolving credit facilities available for standby liquidity and general corporate purposes. These facilities have remained undrawn since inception. Therefore, the Group has future funding and additional liquidity of $1.3 billion available in the short to medium term, in addition to the project specific funding for Aktogay of $1.5 billion which is not yet drawn.

The Directors have considered the Group's financial position, the available borrowing facilities, the planned capital expenditure programme and the outlook for the Group's products and major projects, and believe there is sufficient funding available to meet the Group's anticipated cash flow requirements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

(b) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in US dollars ($) and all financial information has been rounded to the nearest million dollars ($ million) except when otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2012 and the Group's financial performance for the year ended 31 December 2012.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This treatment may mean that amounts previously recognised in other comprehensive income are recycled through the income statement.

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

2. Basis of preparation continued

Non-controlling interests primarily represent the interests in Kazakhmys LLC not held by the Company. The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Refer to note 39(n) for a list of the Company's significant subsidiaries.

(d) Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union (EU), and in accordance with the provisions of the Companies Act 2006.

(e) Adoption of standards and interpretations

None of the new standards and interpretations which are applicable for the first time for the year ended 31 December 2012 issued by the IASB and which are relevant to the Group has been endorsed by the EU. Consequently, the Group has not adopted any of these standards and interpretations.

The Group has not early adopted any standards, interpretations or amendments that were issued but are not yet effective.

(f) New standards and interpretations not yet adopted

In preparing the consolidated financial statements, the Group has not applied the following relevant standards and interpretations. The Group's expectation on when these standards and interpretations will be adopted is dependent on the date these are effective for application in the EU:

- IFRS 9 'Financial Instruments', IASB effective 1 January 2015, however, not yet endorsed by the EU. Based on the nature of the Group's financial assets, the adoption of the standard is not expected to have a material impact on the financial position or performance of the Group;
- IFRS 10 'Consolidated Financial Statements', issued in May 2011, replaces the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements'. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard has been endorsed by the EU and is effective for the accounting period beginning on 1 January 2014. The Group is yet to assess IFRS 10's full impact on its financial position or performance;
- IFRS 11 'Joint Arrangements', issued in May 2011, replaces IAS 31 'Interests in joint ventures'. The standard establishes accounting principles based on the rights and obligations of the joint arrangement rather than its legal form. The standard introduces two types of joint arrangement – joint operations and joint ventures – and eliminates proportionate consolidation for any form of joint arrangement. The standard has been endorsed by the EU and is effective for the accounting period beginning on 1 January 2014. The Group is yet to assess IFRS 11's full impact on its financial position or performance;
- IFRS 12 'Disclosure of Interests in Other Entities', issued in May 2011, is a new standard that establishes the disclosure requirements for all entities that a Group has an interest in, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard has been endorsed by the EU and is effective for the accounting period beginning on 1 January 2014. The Group is yet to assess IFRS 12's full impact on its financial position or performance;
- IFRS 13 'Fair Value Measurement', issued in May 2011 and endorsed by the EU in December 2012, is a new standard that aims to improve consistency and reduce complexity of fair value measurement techniques adopted in financial statements. As the requirements, which are largely aligned between IFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs, the adoption of the standard is not expected to have a material impact on the financial position or performance of the Group. The effective date for application in the EU has not yet been set;
- IAS 19 'Employee Benefits (Revised)', issued in June 2011 and endorsed by the EU in June 2012, removes the ability to defer recognition of actuarial gains and losses (the corridor approach) for defined benefit plans and in some instances may require the recognition of termination benefits earlier than under the previous standard. The effective date for application in the EU has not yet been set. The Group is yet to assess the full impact of IAS 19 (Revised) on its financial position or performance;
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' issued in October 2011 and endorsed by the EU in December 2012. This interpretation applies to the treatment of waste removal (stripping) costs incurred in surface mining activity during the production phase of a mine. The effective date for application in the EU has not yet been set. The Group is yet to assess IFRIC 20's full impact on its financial position or performance; and
- Improvements to IFRSs. There are a number of amendments to certain standards following the 2011 annual improvements project which have not yet been endorsed by the EU. The impact of any consequential changes to the consolidated financial statements is not likely to be significant.

These standards and interpretations will be adopted by the Group on the date that these are effective for application by the EU. The full assessment of the impact of the adoption of these standards and interpretations in future periods has not been completed and consequently the potential changes to the reported income or net assets of the Group in the period of initial application and the presentation of these in the consolidated financial statements has yet to be determined.

(g) Change in accounting policies

There have been no changes to accounting policies during the year.

(h) Comparative information

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

At 31 December 2012, the Group has reclassified non-current VAT receivables and non-current advances for the purchase of property, plant and equipment from current assets and property, plant and equipment, respectively, to other non-current assets (see note 20). The comparative information at 31 December 2011 has been reclassified accordingly. This change has not had an impact on the Group's net assets or total assets for both periods presented in the consolidated financial statements.

During 2012, EBITDA (excluding special items), a key performance indicator of the Group, has been redefined. The Group considers EBITDA to be a proxy for cash earnings from current trading performance. Consequently, the actuarial remeasurement charge recognised in the income statement in respect of the Group's disability benefits obligation has been excluded from EBITDA and instead, the actual disability benefits payments disbursed during the year have been deducted in arriving at EBITDA. A change in legislation in 2011 significantly increased the level of payments the Group is required to make to disabled current and former employees, and consequently the corresponding provision for the disability benefits obligation also increased. As the disability benefits obligation is remeasured on an ongoing basis and is subject to potential volatility arising from changes to actuarial assumptions, including expectations of future payment levels and the discount rate applied, the actuarial remeasurement charge in any particular period can often be unrepresentative of the cash payable in respect of that period. For the year ended 31 December 2011, the impact of this change is considered insignificant in the context of EBITDA and the consolidated financial statements as a whole, and therefore 2011 has not been restated. For the year ended 31 December 2012, the actuarial remeasurement charge of $190 million has been excluded from EBITDA and cash disbursements of $41 million have been deducted in arriving at EBITDA, such that a net amount relating to the non-cash component of the disability benefits obligation of $149 million has been excluded from EBITDA.

(i) Significant accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements.

Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Critical judgements in applying the Group's significant accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), which the Directors believe are likely to have the most significant effect on the amounts recognised in the consolidated financial statements.

Equity accounting of associate

At 31 December 2012, the Group owned 26.0% of ENRC PLC, an internationally diversified mining company listed on the London Stock Exchange.

The investment has been treated as an associate and accounted for under the equity method in accordance with IAS 28 'Investments in Associates' as the Directors believe that the Group exerts significant influence over ENRC. IAS 28 states that there is a rebuttable presumption that significant influence exists where an investor holds more than 20% of the voting power of the investee. Although Kazakhmys does not have representation on the board of ENRC, the Directors believe that the Group has the ability to exercise significant influence by virtue of its substantial shareholding, whereby the Group owns in excess of 25% of the issued share capital of ENRC and is the single largest shareholder.

This interest confers the Group with certain additional rights and influence under the Companies Act 2006 (CA06) which allow the Group to block special resolutions proposed by ENRC at general meetings. Consequentially, through the provisions of the CA06, the Group is able to participate in policy making processes of ENRC, including participation in rights issues or setting the distribution policy, which form part of ENRC's capital management strategy.

The Directors are of the view that the Group has influence over the acquisition strategy of ENRC by having the ability to block related party transactions which ENRC has a history of making, where these transactions are over and above the de-minimis exemption in the Listing Rules.

Furthermore, the frequency and nature of meetings between the two companies have changed substantially since the Group increased its shareholding above 25%, with matters such as acquisition strategy and capital management being discussed.

The Directors therefore believe that it remains appropriate for the Group to equity account for its interest in ENRC in accordance with IAS 28.

Assets held for sale and discontinued operations

During 2009 the Directors decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. The business was classified as an asset held for sale at 31 December 2009, and correspondingly as a discontinued operation in the consolidated income statement for the 2009 financial year. This classification was made as the Group believed that a sale was highly probable to take place within 12 months from the date the business was first classified as held-for-sale. The sale of MKM has not completed within the envisaged 12 month period, as negotiations with potential acquirers have taken longer than was originally anticipated, principally due to challenges faced by potential interested parties in raising the finance necessary to complete the transaction. The failure of the potential acquirers to secure the level of funding required to meet MKM's working capital requirements is a factor that was neither anticipated nor within management's control.

In June 2012, management appointed an investment bank to conduct a structured tender process for the sale of the MKM business. The sales process managed by the investment bank is being run in conjunction with ongoing discussions held by management with potential suitors who have expressed an interest in acquiring MKM, some of whom have undertaken due diligence on the business. At 31 December 2012, the Group's strategic objective of disposing of MKM remains the same and the initial offers presented by the interested parties are at prices consistent with previous expectations, with committed financed offers expected in the first half of 2013.

2. Basis of preparation continued

Based on these facts, the Directors consider that MKM continues to meet the criteria to be classified as held for sale at the balance sheet date, including, in particular, that a disposal is considered to be highly probable within the next 12 months.

Determination of excess profits taxation

Following the introduction of new tax legislation on 1 January 2009, the Directors interpreted the legislation and the terms of the Group's subsoil licences and believed that excess profits tax was not applicable to the Group's operations after this date. This view was supported by discussions and correspondence with the Governmental authorities. The Directors believe that the Group's judgements in the past and at the time were reasonable and were in compliance with Kazakhstan tax legislation, however accepted the risk that the tax authorities might have a different interpretation of the tax legislation at the time of a future tax audit.

During 2010 and 2011, Kazakhmys LLC pursued through the courts in Kazakhstan confirmation of Kazakhmys LLC's status as an excess profits taxation payer in the periods up to and including 2008. In October 2011, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC, such that Kazakhmys LLC should not have been an excess profits tax payer in the periods up to and including 2008. Following this ruling as well as the results of two previous tax audits for the years 2003 to 2008, where the tax authorities confirmed Kazakhmys LLC's methodology in calculating its excess profits taxation liabilities by making no further claims, the Group released the excess profits tax provision of $49 million (including fines and penalties) that was recognised in earlier years as at 31 December 2011. The provision was previously recognised due to uncertainties over the judgements that were made in respect of Kazakhmys LLC's methodology of computing excess profits tax in periods up to and including 2008.

In 2012, following the Supreme Court's ruling, Kazakhmys LLC lodged a claim with the Ministry of Finance to seek reimbursement of past EPT payments amounting to $108 million for the periods up to and including 2008. In the second half of 2012, the Ministry of Finance partially accepted Kazakhmys LLC's position and $60 million has been set-off against the income tax and mineral extraction tax liabilities for the year ended 31 December 2012. The remaining $48 million has been challenged by the tax authorities who believe that this amount relates to periods beyond the Kazakhstan statute of limitations. Kazakhmys LLC has taken legal action against the tax authorities for the refund of these amounts. In addition, Kazakhmys LLC believes that the applicable sections of the legislation dealing with the statute of limitations relates to valid tax payments and as these past EPT payments have already been ruled as invalid as a result of the Supreme Court ruling, their refund is therefore not restricted by the statute of limitations.

The reimbursement of $60 million has reduced the income tax and mineral extraction tax liabilities for the year ended 31 December 2012, and has been recognised as a refund of past EPT in the consolidated income statement as a special item. However, notwithstanding the previous ruling of the Supreme Court and the merits of Kazakhmys LLC's case against the Ministry of Finance, in light of the ongoing legal actions being taken by Kazakhmys LLC against the tax authorities, the Directors believe that sufficient uncertainty still remains over the recoverability of the remaining $48 million such that an asset for this amount has not been recognised in the consolidated financial statements as at 31 December 2012.

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of assets

The Directors review the carrying value of the Group's assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen can require considerable judgement taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. Where such indicators exist, the carrying value of the assets of a cash generating unit is compared with the recoverable amount of those assets, that is, the higher of net realisable value and value in use, which is determined on the basis of discounted future cash flows. This involves management estimates on commodity prices, market demand and supply, economic and regulatory climates, long-term mine plans and other factors. Any subsequent changes to cash flows due to changes in the above mentioned factors could impact the carrying value of the assets.

At 31 December 2012, the carrying value of the Group's equity investment in ENRC of $4,250 million exceeded the market value of $1,546 million by an amount that the Directors deemed as significant as envisaged by IAS 39 'Financial instruments: recognition and measurement'. Whilst the market value of the Group's investment in ENRC was below its carrying value at 31 December 2011 and 30 June 2012, the impairment reviews performed at those dates did not result in any impairment charges being recognised. However, since the impairment review performed at 30 June 2012, the price expectations and outlook for ENRC's key products has weakened, ENRC has announced a revised capital expenditure programme and, in addition, ENRC's gearing levels have increased significantly. As a result, taking these developments into account, the impairment review performed in accordance with IAS 36 'Impairment of assets', concluded that an impairment charge of $2,223 million should be recognised at 31 December 2012.

In determining the value-in-use of the ENRC investment, the Directors made assumptions of the future cash flows to be generated by ENRC using assumptions derived from publicly available information on ENRC's production volumes and capital expenditure, inflation, exchange rates and commodity price forecasts. The calculation of the value-in-use generated a range of outcomes as the calculation is particularly sensitive to changes in commodity prices, operating cost inflation, capital expenditure and the discount rate used. In addition, the valuation of certain of ENRC's development assets involved a high degree of judgement given their relatively early stage in the project lifecycle. Any changes to the assumptions adopted in the calculation of the value-in-use, individually or in aggregate, would result in a different value-in-use being determined. Accordingly, in determining a valuation point within the range of outcomes determined by the calculation of the value-in-use, the Directors have also considered ENRC's market valuation over several historical periods and the results of recent valuations performed by equity analysts.

In addition during the year ended 31 December 2012, Kazakhmys Mining recognised a $162 million impairment charge in respect of the Bozymchak project in Kyrgyzstan. In determining the value-in-use of the Bozymchak project, the Directors made estimates of the future cash flows to be generated by this project with the key variables being copper and gold price assumptions, capital expenditure to complete the project and its commissioning date for commercial production.

For the years ended 31 December 2012 and 31 December 2011, the impairment charges in respect of businesses classified as discontinued operations in the consolidated financial statements, were MKM $17 million (2011: $9 million) and in 2011, $444 million for Kazakhmys Petroleum, each of which were written down to their recoverable amounts, represented by the fair value less costs to sell of each asset.

Determination of ore reserves and useful lives of property, plant and equipment
Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

The Group estimates its ore reserves and mineral resources based on information compiled by competent persons as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC code). A review of the Group's reserves and resources is undertaken on an annual basis by an independent competent person.

In assessing the life of a mine for accounting purposes, mineral reserves are only taken into account where there is a high degree of confidence of economic extraction (proven and probable mineral reserves). Since the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;
- depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the unit of production basis, or where the useful economic lives of assets change;
- decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in reserves being revised.

For property, plant and equipment depreciated on a straight line basis over its useful economic life, the appropriateness of the assets' useful economic life is reviewed at least annually and any changes could affect prospective depreciation rates and asset carrying values.

Employee benefits
The expected costs of providing long-term employment benefits under defined benefit arrangements relating to employee service during the period are determined based on financial and actuarial assumptions. Assumptions in respect of the expected costs are set in consultation with an independent actuary.

During 2011, new legislation was enacted in Kazakhstan which increased the amounts payable for death and disability benefits. Under the new legislation, which applies retrospectively, the benefits payable are calculated on the basis of average salaries of employees currently in service. Prior to the change in the legislation, benefits payable were calculated on the basis of historic salaries that were increased annually by the official inflation rate prevailing in Kazakhstan. As a result of this new legislation, future salary increases within the business have to be estimated. Other key assumptions include the selection of discount and mortality rates. The discount rate used has been determined by reference to the US 10 year treasury bond rate adjusted for inflation and the appropriate country risk factor. The US 10 year treasury bond rate approximates to the average maturity profile of the Group's benefit obligations. Mortality rates are based on the official mortality table of Kazakhstan published by the Government.

While the Directors believe the assumptions used are appropriate, a change in the assumptions used would impact the employee benefit obligation recognised on the balance sheet and hence the financial performance of the Group.

Provision for environmental pollution charges ('EPC')
The tax audit conducted for the years 2006 to 2008 within Kazakhmys LLC, identified a potential exposure related to EPC resulting from a difference in interpretation on the applicability of stabilised rates relating to EPC and similar legislative matters. Despite Kazakhmys LLC having challenged the basis of certain of the claims levied by the tax authorities, the Directors assessed the position of Kazakhmys LLC as at 31 December 2011 and recognised a provision of $38 million (including fines and penalties) reflecting the probability that a settlement would be negotiated with the tax authorities following agreement being reached on the interpretation of the relevant legislation.

In May 2012, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC in its appeal over certain of the claims levied by the tax authorities. The Supreme Court's ruling confirmed the basis used by Kazakhmys LLC in calculating certain of its EPC liabilities for the periods under audit. Consequently, the Directors believe that the likelihood of further liabilities or exposures existing in respect of EPC for the periods 2006 to 2008 is remote and the provision of $38 million, including fines and penalties, relating to the possible settlement of some of the additional liabilities calculated by the tax authorities has been released as at 31 December 2012.

Income taxes
In determining the level of accruals and provisions to be recognised in respect of any potential exposures for various tax liabilities, the Directors make estimates in relation to the level of taxes payable, particularly in relation to transfer pricing, non-deductible items and outcomes of tax disputes. The tax obligations may then be audited by the tax authorities at a future date which may also impact the level of accruals and provisions recognised.

3. Summary of significant accounting policies

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

(a) Foreign currency translation

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

The functional currency of the Company, the Group's financing and holding companies and Kazakhmys Sales Limited is the US dollar ($) as the majority of the operating activities are conducted in US dollars. The functional currency of production and exploration entities within Kazakhmys Mining and Kazakhmys Power is the Kazakhstan tenge (KZT), the Bozymchak project is the Kyrgyz som (KGS) and of MKM is the Euro (€). On consolidation, income statements of subsidiaries are translated into US dollars, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. Exchange differences on the retranslation are taken to a separate component of equity. All other exchange differences are charged or credited to the income statement in the year in which they arise. The following foreign exchange rates against the US dollar have been used in the preparation of the consolidated financial statements:

	31 December 2012		31 December 2011	
	Spot	**Average**	Spot	Average
Kazakhstan tenge	**150.74**	**149.11**	148.40	146.62
Euro	**0.76**	**0.78**	0.77	0.72
UK pounds sterling	**0.62**	**0.63**	0.65	0.62

(b) Business combinations

The Group applies the purchase method to account for business combinations. On the acquisition of a subsidiary, the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair values at the date of acquisition. Those mining rights, mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights, for which in the Directors' opinion values cannot be reliably determined, are not recognised.

The consideration transferred (cost of acquisition) is the aggregate of: (a) the fair values at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group; and (b) the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred in the income statement.

When the cost of acquisition exceeds the fair value attributable to the Group's share of the identifiable net assets, the difference is treated as purchased goodwill.

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognises any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Group recognises the resulting gain in the income statement on the acquisition date.

When a subsidiary is acquired in a number of stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Similar procedures are applied in accounting for the purchases of interests in associates and joint ventures. Any goodwill arising on such purchases is included within the carrying amount of the investment in the associate, but not thereafter amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in the income statement in the period of the purchase.

(c) Intangible assets

(i) Mineral licences and other intangible assets

Mineral licences and other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost (which comprises purchase price plus any directly attributable costs of preparing the asset for intended use) less accumulated amortisation and impairment losses. The cost of intangible assets acquired in a business combination is their fair value which can be measured reliably as at the date of acquisition.

(ii) Amortisation

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

(d) Property, plant and equipment

(i) Initial measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, plant and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. The unit of production method is the ratio of commodity production in the period to the estimated quantities of commercial reserves over the life of the mine (using proven and probable mineral reserves as determined by the JORC code on an annual basis) based on the estimated economically recoverable reserves to which they relate. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

Depreciation commences on the date the assets are used within the business. Freehold land is not depreciated.

The expected useful lives are as follows:

Buildings	15-40 years
Plant and equipment	4-25 years
Other	3-15 years

(iii) Construction in progress

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

Construction in progress is not depreciated.

(iv) Repairs and maintenance

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

(v) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor and not transferred to the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(e) Mining assets

(i) Mineral properties

Costs of acquiring mineral properties are capitalised on the balance sheet in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised during the commissioning period (development expenditure) where the asset is incapable of operating at normal levels without a commissioning period. Mineral properties are amortised over the remaining life of the mine using a unit of production method.

(ii) Mine development costs

Mine development costs are incurred to obtain access to proved reserves or mineral-bearing ore deposits and to provide facilities for extracting, lifting and storing minerals. Such costs are, upon commencement of production, amortised over the remaining life of the mine using a unit of production method.

(iii) Mine stripping costs

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

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

(iv) Exploration and evaluation costs

Exploration and evaluation expenditure for each area of interest once the legal right to explore has been acquired, other than that acquired through a purchase transaction, is carried forward as an asset, within mining assets, provided that one of the following conditions is met:

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

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred.

Identifiable exploration and evaluation assets acquired in a purchase transaction are recognised as assets at their cost, or fair value if purchased as part of a business combination. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Exploration and evaluation assets attributable to producing interests are amortised over the remaining life of the mine on a unit of production basis.

(f) Impairment

The carrying values of mining assets, capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount.

Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

3. Summary of significant accounting policies continued

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised for the asset in prior years. Such reversals are recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

(g) Equity accounted investments

A joint venture is an entity in which the Group holds a long-term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers under a contractual arrangement.

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

The Group accounts for investments in joint ventures and associates using the equity method except when such investments are classified as held for sale.

Under the equity method of accounting, the investment in the joint venture and associate is recognised on the balance sheet on the date of acquisition at cost, representing the fair value of the purchase consideration and therefore including any goodwill on acquisition.

The Group's income statement reflects the share of a joint venture's and associate's results after tax and the Group's statement of comprehensive income includes any amounts recognised by the joint venture and associate outside of the income statement. The carrying amount of the investment is adjusted by the Group's share of the cumulative post-acquisition profit or loss net of any impairment losses and dividends receivable from the joint venture and associate. Where there has been a change recognised directly in the equity of the joint venture and associate, the Group recognises its share of such changes in equity. Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and the joint venture and associate.

The carrying values of joint ventures and associates are reviewed on a regular basis and if an impairment in value has occurred, it is written off in the period in which those circumstances are identified. An impairment indicator is deemed to exist where the carrying value of a listed investment exceeds its market value by an amount that is significant or for a prolonged period of time, as envisaged by IAS 39 'Financial instruments: recognition and measurement'. Should an impairment indicator exist, an estimate of the investment's recoverable amount is calculated in accordance with IAS 36 'Impairment of assets'. If the carrying amount of the investment exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount.

The Group discontinues its use of the equity method from the date on which it ceases to have joint control or exert significant influence, and from that date, accounts for the investment in accordance with IAS 39 (with its initial cost being the carrying amount of the joint venture or associate at that date), provided the investment does not then qualify as a subsidiary.

(h) Inventories

Inventories are valued at the lower of 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 is determined on the following bases:

- raw materials and consumables are valued at cost on a first-in, first-out (FIFO) basis; and
- work in progress and finished goods are valued at the cost of production, including the appropriate proportion of depreciation, labour and overheads based on normal operating capacity. The cost of work in progress and finished goods is based on the weighted average cost method.

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

(i) Trade and other receivables

Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.

(j) Cash and cash equivalents

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

(k) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Non-current assets (or disposal groups) held for sale are carried at the lower of the carrying amount prior to being classified as held for sale, and the fair value less costs to sell. A non-current asset is not depreciated while classified as held for sale. A non-current asset held for sale is presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale are presented separately as one line in the assets and liabilities sections on the face of the balance sheet.

An asset or business is considered to be a discontinued operation if it has been sold or is classified as held for sale and is part of a single coordinated plan to dispose of either a separate major line of business or is a subsidiary acquired exclusively with a view to sale. Once an operation has been identified as discontinued, its net profit is presented separately from continuing operations. Comparative information is reclassified so that the net profit of the prior period is also presented separately.

(l) Borrowings

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

(m) Employee benefits

(i) Long-term employee benefits

The Group's entities located in Kazakhstan remit contributions to defined contribution pension plans on behalf of its employees. Contributions to be paid by the Group are withheld from employees' salaries and are recognised as part of the salary expense in the income statement as incurred.

The Group's unfunded defined benefit plans, including the death and disability plans for current and former employees, are accounted for in accordance with IAS 19 'Employee Benefits', such that the plan liabilities are measured by actuarial valuations using the projected unit credit method.

The future benefit that employees have earned is discounted to determine the present value. The discount rate is determined by reference to the US treasury bond rate adjusted for country specific inflation and risk. The treasury bond used approximates to the average maturity profile of the Group's benefit obligations. The calculation is performed by a qualified independent actuary.

Actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised depending on the nature of the post-employment benefit. In respect of the death and disability benefit plans, these actuarial gains and losses are recognised immediately in the income statement. The Group recognises actuarial gains and losses falling outside a 'corridor' of the greater of 10% of the benefit obligation, amortised over the expected average future working lifetime of employees in the arrangements for all other long-term defined benefit plans. The expense in relation to these long-term employee benefits is charged to the income statement so as to match the cost of providing these benefits to the period of service of the employees.

(ii) Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined using the Monte Carlo method and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

(n) Own shares

Own equity instruments which are re-acquired either by the Employee Benefits Trust for the purposes of the Group's employee share-based payment plans or by the Company as part of any share buy-back programmes are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

(o) Trust activities

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

(p) Social responsibility costs

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

(q) Provisions

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

(i) Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over the remaining life of the mine to which it relates using a unit of production method. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Any change in restoration costs or assumptions will be recognised as additions or charges to the corresponding asset and provision when they occur. For permanently closed sites, changes to estimated costs are recognised immediately in the income statement.

3. Summary of significant accounting policies continued

(ii) Payments for licences

In accordance with the terms of subsoil use contracts, provision is made for future licence payments when the Group has a present obligation to repay the costs of geological information provided for licensed deposits. The amount payable is discounted to its present value.

(iii) Other

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

(r) Revenue

Revenue represents the value of goods and services supplied to third parties during the year. Revenue is measured at the fair value of consideration receivable, and excludes any applicable sales tax. Mineral extraction tax is included within cost of sales.

All revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title and any insurance risk has passed to the customer and the goods have been delivered in accordance with the contractual delivery terms or when any services have been provided.

Almost all sales agreements for copper cathodes, copper rods and copper and zinc concentrate are provisionally priced, (i.e. the selling price is subject to final adjustment at the end of a quotation period, typically the average price either for the month or the month following delivery to the customer), based on the LME market price for the relevant quotation period stipulated in the contract. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of a commodity at the provisional invoice price, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales are marked-to-market using forward prices, with adjustments (both gains and losses) being recorded in revenue in the income statement and in trade receivables or trade payables in the balance sheet.

(s) Finance income

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

(t) Finance costs

Finance costs comprise interest expense on borrowings which are not capitalised under the borrowing costs policy (see 3(u) below), the unwinding of interest cost on provisions and foreign exchange losses.

(u) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the year. All other borrowing costs are recognised in the income statement in the period in which they are incurred using the effective interest rate method.

Borrowing costs that represent avoidable costs not related to the financing arrangements of the development projects and are therefore not directly attributable to the construction of these respective assets are expensed in the period as incurred. These borrowing costs generally arise where the funds are drawn down under the Group's financing facilities, whether specific or general, which are in excess of the near term cash flow requirements of the development projects for which the financing is intended, and the funds are drawn down ahead of any contractual obligation to do so.

(v) Income tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

(w) Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

(x) Financial instruments

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

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted investments and derivative financial instruments.

The Group's most significant financial assets, within the scope of IAS 39, are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are typically loans and receivables created by the Group in providing money to a debtor.

Subsequent measurement

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. Allowance for impairment is estimated on a case-by-case basis.

Derecognition

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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

The Group's most significant financial liabilities, within the scope of IAS 39, are classified as loans and borrowings.

Subsequent measurement

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method after initial recognition. Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(iii) Derivative financial instruments

Where the Group enters into derivative contracts that are not hedging instruments in hedge relationships as defined by IAS 39, these are carried in the balance sheet at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would have been expected.

(iv) Offsetting of financial instruments

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

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 33.

4. Segment information

Information provided to the Group's Board of Directors for the purposes of resource allocation and the assessment of segmental performance is prepared in accordance with the management and operational structure of the Group. For management and operational purposes, the Group is organised into three separate business units (2011: four), as shown below, according to the nature of their operations, end-products and services rendered. Each of these business units represents an operating segment in accordance with IFRS 8 'Operating segments'. The operating segments of the Group are:

Kazakhmys Mining
The Kazakhmys Mining business is managed as one operating segment and comprises all entities and functions within the Group responsible for the exploration, evaluation, development, mining and processing of the Group's mineral resources and sale of the Group's metal products. The segment consists of:

- the Group's main operating entity, Kazakhmys LLC, whose principal activity is the mining and processing of copper and other metals which are produced as by-products;
- the Group's smelting operations, Kazakhmys Smelting LLC, whose principal activity is the refining of copper and other metals which are produced as by-products by Kazakhmys LLC;
- the Group's UK trading function, Kazakhmys Sales Limited, which is responsible for the purchase of exported products from Kazakhmys LLC and subsequently applies an appropriate mark-up prior to onward sale to third parties. The UK entity is a sales function on behalf of the Kazakhmys Mining business and consequently the assets and liabilities related to those trading operations, i.e. trade payables and trade receivables, are included within the Kazakhmys Mining operating segment;
- the Group's exploration companies which provide services for greenfield drilling on new projects and deposits, brownfield drilling on expansion projects and deposits at existing mines, and exploration work for potential new projects and deposits for the Mining segment;
- the Group's project companies, whose responsibility is the development of metal production related assets on behalf of the Mining segment including the evaluation and development of the Group's major mining projects; and
- the Group's technical and ancillary services which provide technical, logistics and other services principally to the Mining segment and which are managed as an extension of the Mining segment.

The financial and operating information used by the Board of Directors for the purpose of resource allocation of all these separate functions and entities is included within the Mining segment.

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

As stated in note 37(a), the Directors have decided to dispose of MKM. As a result, at 31 December 2012 and 2011, MKM has been classified as a disposal group held for sale and as a discontinued operation.

Kazakhmys Power
Kazakhmys Power operates in Kazakhstan, and consists of the Group's three captive power stations, the Ekibastuz GRES-1 coal-fired power station joint venture and the Maikuben West coal mine (up to the period ended 17 May 2011). The principal activity of the Kazakhmys Power operating segment is the sale of electricity and coal to external customers and internally to the Kazakhmys Mining segment. The captive power stations and the Group's 50% interest in the Ekibastuz GRES-1 coal-fired power station are managed by the same management team and produce discrete financial and operating information that is used by the Board of Directors for operational and resource allocation decisions.

Kazakhmys Petroleum
As stated in note 37(b), the Group disposed of Kazakhmys Petroleum in December 2011, and as a result, it has been classified as a discontinued operation for the year ended 31 December 2011.

Managing and measuring operating segments
The key performance measure of the operating segments is EBITDA (excluding special items). EBITDA (excluding special items) is defined as profit before interest, taxation, depreciation, depletion, amortisation, the non-cash component of the disability benefits obligation and mineral extraction tax, as adjusted for special items. Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business (note 5). During 2012, EBITDA (excluding special items) has been re-defined to exclude the impact of the non-cash component of the disability benefits obligation. Consequently, the actuarial remeasurement charge recognised in the income statement in respect of the Group's disability benefits obligation has been excluded from EBITDA and instead, the actual disability benefits payments disbursed during the year have been deducted in arriving at EBITDA. The change in definition of EBITDA (excluding special items) is considered to more fairly represent EBITDA, a key performance indicator, which is a proxy for cash earnings from current trading performance.

The Group's Treasury department monitors finance income and finance costs at the Group level on a net basis rather than on a gross basis at an operating segment level.

Inter-segment sales include power sales from Kazakhmys Power to Kazakhmys Mining from the Group's captive power stations, and coal sales from Kazakhmys Mining to Kazakhmys Power from the Borly coal mines.

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

(a) Operating segments

(i) Income statement information

						Year ended 31 December 2012		
						Continuing operations		
$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1,2]	Corporate Services	Total	Income statement	Joint venture[2]	Discontinued operations[3]
Revenues								
Segment sales	**3,362**	**1,466**	**459**	**–**	**5,287**			
Inter-segment sales	**(77)**	**–**	**(101)**	**–**	**(178)**			
Sales to external customers	**3,285**	**1,466**	**358**	**–**	**5,109**	**3,353**	**290**	**1,466**
Gross profit	**1,316**	**107**	**191**	**–**	**1,614**	**1,330**	**177**	**107**
Operating costs	**(806)**	**(58)**	**(39)**	**(55)**	**(958)**	**(878)**	**(22)**	**(58)**
Impairment losses	**(202)**	**(18)**	**–**	**–**	**(220)**	**(202)**	**–**	**(18)**
Share of profits from joint venture[4]	**–**	**–**	**–**	**–**	**–**	**126**	**(126)**	**–**
Loss on disposal of subsidiary[5,6]	**(8)**	**–**	**–**	**(13)**	**(21)**	**(8)**	**–**	**(13)**
Segmental operating profit/(loss)	**300**	**31**	**152**	**(68)**	**415**	**368**	**29**	**18**
Share of losses from associate[4]					**(2,481)**	**(2,481)**	**–**	**–**
Net finance (costs)/income					**(93)**	**(91)**	**3**	**(5)**
Income tax expense					**(111)**	**(86)**	**(32)**	**7**
(Loss)/profit for the year					**(2,270)**	**(2,290)**	**–**	**20**

							Year ended 31 December 2011		
							Continuing operations		
$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1,2]	Kazakhmys Petroleum	Corporate Services	Total	Income statement	Joint venture[2]	Discontinued operations[3]
Revenues									
Segment sales	3,548	1,665	426	–	–	5,639			
Inter-segment sales	(49)	–	(104)	–	–	(153)			
Sales to external customers	3,499	1,665	322	–	–	5,486	3,563	233	1,690
Gross profit	1,929	86	178	–	–	2,193	1,944	142	107
Operating costs	(738)	(60)	(46)	(1)	(55)	(900)	(810)	(16)	(74)
Impairment losses	(9)	(9)	–	(444)	–	(462)	(9)	–	(453)
Share of profits from joint venture[4]	–	–	–	–	–	–	100	(100)	–
Loss on disposal of subsidiary[3]	–	–	(20)	(24)	–	(44)	–	–	(44)
Segmental operating profit/(loss)	1,182	17	112	(469)	(55)	787	1,225	26	(464)
Share of profits from associate[4]						466	466	–	–
Net finance costs						(79)	(68)	–	(11)
Income tax (expense)/credit						(244)	(221)	(26)	3
Profit/(loss) for the year						930	1,402	–	(472)

1 Kazakhmys Power includes the results of the Group's captive power stations and 50% of the results of Ekibastuz GRES-1 LLP as an equity accounted joint venture. In the year ended 31 December 2011, the segment also included the results of the Maikuben West coal mine for the period ended 17 May 2011 which was included within discontinued operations (see note 37(c)).

2 For segment reporting, the Group includes its 50% share of the income statement line items that relate to Ekibastuz GRES-1 LLP on a line-by-line basis, whereas in the Group's income statement, the financial results of Ekibastuz GRES-1 LLP are included within 'share of profits from joint venture'. Note 18 provides further detail on the financial results of the joint venture.

3 In the year ended 31 December 2012, MKM is included within discontinued operations as well as the impact of the reduced completion adjustment relating to the disposal of Kazakhmys Petroleum (see note 36(b)). For the year ended 31 December 2011, discontinued operations consisted of MKM for the full year, the Maikuben West coal mine (included within Kazakhmys Power) for the period up to its disposal on 17 May 2011 and Kazakhmys Petroleum for the period ended 23 December 2011, the date it was sold (see note 37).

4 Share of results is net of tax.

5 In early 2012, the Group disposed of its captive insurance company in Kazakhstan, included within Kazakhmys Mining, for proceeds of $3 million which resulted in the recognition of a loss of $8 million on disposal (see note 36(a)).

6 In the year ended 31 December 2012, negotiations over the completion adjustment in respect of Kazakhmys Petroleum were concluded. As a result of these negotiations, the completion adjustment has been revised downwards resulting in the reduction of the consideration receivable by $13 million (see note 36(b)).

4. Segment information continued

(ii) Earnings before interest, tax, the non-cash component of the disability benefits obligation, depreciation and amortisation (EBITDA) excluding special items

						Year ended 31 December 2012		
						Continuing operations		
$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1,2]	Corporate Services	Total	Income statement	Joint venture[2]	Discontinued operations[3]
Operating profit/(loss) per income statement[2]	**300**	**31**	**123**	**(68)**	**386**	**242**	**126**	**18**
Interest and taxation of joint venture	**–**	**–**	**29**	**–**	**29**	**–**	**29**	**–**
Segmental operating profit/(loss)[2]	**300**	**31**	**152**	**(68)**	**415**	**242**	**155**	**18**
Add: depreciation, depletion and amortisation	**251**	**–**	**56**	**3**	**310**	**276**	**34**	**–**
Add: non-cash component of the disability benefits obligation[4]	**149**	**–**	**–**	**–**	**149**	**149**	**–**	**–**
Add: mineral extraction tax[5]	**260**	**–**	**–**	**–**	**260**	**260**	**–**	**–**
Segmental EBITDA	**960**	**31**	**208**	**(65)**	**1,134**	**927**	**189**	**18**
Special items – note 5:								
Add: impairment charges	**192**	**17**	**–**	**–**	**209**	**192**	**–**	**17**
Add: loss on disposal of subsidiaries	**8**	**–**	**–**	**13**	**21**	**8**	**–**	**13**
Segmental EBITDA (excluding special items)	**1,160**	**48**	**208**	**(52)**	**1,364**	**1,127**	**189**	**48**
Share of EBITDA of associate[6]	**–**	**–**	**–**	**548**	**548**	**548**	**–**	**–**
Group EBITDA (excluding special items)	**1,160**	**48**	**208**	**496**	**1,912**	**1,675**	**189**	**48**

							Year ended 31 December 2011		
							Continuing operations		
$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1,2]	Kazakhmys Petroleum	Corporate Services	Total	Income statement	Joint venture[2]	Discontinued operations[3]
Operating profit/(loss) per income statement[2]	1,182	17	106	(445)	(55)	805	1,125	100	(420)
Interest and taxation of joint venture	–	–	26	–	–	26	–	26	–
Segmental operating profit/(loss)[2]	1,182	17	132	(445)	(55)	831	1,125	126	(420)
Add: depreciation, depletion and amortisation	215	–	44	–	5	264	236	28	–
Add: mineral extraction tax[5]	280	–	–	–	–	280	280	–	–
Segmental EBITDA	1,677	17	176	(445)	(50)	1,375	1,641	154	(420)
Special items – note 5:									
Add: additional disability benefits obligation charge	146	–	–	–	–	146	146	–	–
Add: impairment (reversals)/charges	(15)	9	–	444	–	438	(15)	–	453
Segmental EBITDA (excluding special items)	1,808	26	176	(1)	(50)	1,959	1,772	154	33
Share of EBITDA of associate[6]	–	–	–	–	966	966	966	–	–
Group EBITDA (excluding special items)	1,808	26	176	(1)	916	2,925	2,738	154	33

1 Kazakhmys Power includes the results of the Group's captive power stations and 50% of the results of Ekibastuz GRES-1 LLP as an equity accounted joint venture. In the year ended 31 December 2011, the segment also included the results of the Maikuben West coal mine for the period ended 17 May 2011 which was included within discontinued operations (see note 37(c)).

2 As the operating profit in the consolidated income statement includes the equity accounted profit from the joint venture, Ekibastuz GRES-1, on a post-interest and tax basis, the joint venture's interest and taxation expenses are added back to calculate the operating profit from continuing operations of the Group on a consistent pre-interest and tax basis.

3 In the year ended 31 December 2012, MKM is included within discontinued operations as well as the impact of the reduced completion adjustment relating to the disposal of Kazakhmys Petroleum (see note 36(b)). For the year ended 31 December 2011, discontinued operations consisted of MKM for the full year, the Maikuben West coal mine (included within Kazakhmys Power) for the period up to its disposal on 17 May 2011 and Kazakhmys Petroleum for the period ended 23 December 2011, the date it was sold (see note 37).

4 The non-cash component of the Group's disability benefits obligation has been excluded from EBITDA as EBITDA, a key financial indicator, is a proxy for cash earnings from current trading performance. The non-cash component of the disability benefits obligation is determined as the actuarial remeasurement charge recognised in the income statement less the actual cash payments disbursed during the year in respect of the disability benefits obligation.

5 Mineral extraction tax has been excluded from the key financial indicator of EBITDA as its exclusion provides a more informed measure of the operational performance of the Group as the Directors believe that MET is a substitute for a tax on profits.

6 The share of EBITDA of the associate excludes MET and special items of the associate.

(iii) Balance sheet information

At 31 December 2012

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Corporate Services	Total	Continuing operations	Discontinued operations[1]
Assets							
Tangible and intangible assets[3]	**2,968**	**23**	**143**	**15**	**3,149**	**3,126**	**23**
Intragroup investments	**–**	**–**	**–**	**4,290**	**4,290**	**4,290**	**–**
Non-current investments and other assets[4]	**518**	**–**	**941**	**2,027**	**3,486**	**3,486**	**–**
Operating assets[5]	**1,216**	**224**	**68**	**164**	**1,672**	**1,448**	**224**
Current investments	**65**	**–**	**–**	**450**	**515**	**515**	**–**
Cash and cash equivalents	**147**	**4**	**20**	**1,079**	**1,250**	**1,246**	**4**
Segment assets	**4,914**	**251**	**1,172**	**8,025**	**14,362**	**14,111**	**251**
Deferred tax asset					**87**	**87**	**–**
Income taxes reclaimable					**30**	**30**	**–**
Assets classified as held for sale					**–**	**251**	**(251)**
Elimination					**(4,486)**	**(4,486)**	**–**
Total assets					**9,993**	**9,993**	**–**
Liabilities							
Employee benefits and provisions	**469**	**6**	**9**	**–**	**484**	**478**	**6**
Operating liabilities[6]	**605**	**25**	**112**	**101**	**843**	**818**	**25**
Segment liabilities	**1,074**	**31**	**121**	**101**	**1,327**	**1,296**	**31**
Borrowings					**2,593**	**2,468**	**125**
Deferred tax liability					**1**	**1**	**–**
Income taxes payable					**3**	**1**	**2**
Liabilities directly associated with assets classified as held for sale					**–**	**158**	**(158)**
Elimination					**(196)**	**(196)**	**–**
Total liabilities					**3,728**	**3,728**	**–**

At 31 December 2011

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[1]
Assets								
Tangible and intangible assets[3]	2,598	14	121	–	34	2,767	2,753	14
Intragroup investments	–	–	–	–	4,027	4,027	4,027	–
Non-current investments and other assets[4]	103	–	838	–	4,600	5,541	5,541	–
Operating assets[5]	1,061	209	41	–	199	1,510	1,301	209
Current investments	60	–	–	–	750	810	810	–
Cash and cash equivalents	262	9	4	–	836	1,111	1,102	9
Segment assets	4,084	232	1,004	–	10,446	15,766	15,534	232
Deferred tax asset						61	61	–
Income taxes reclaimable						71	71	–
Assets classified as held for sale						–	232	(232)
Elimination						(4,167)	(4,167)	–
Total assets						11,731	11,731	–
Liabilities								
Employee benefits and provisions	339	6	1	–	–	346	340	6
Operating liabilities[6]	595	18	–	–	44	657	639	18
Segment liabilities	934	24	1	–	44	1,003	979	24
Borrowings						2,014	1,893	121
Deferred tax liability						6	6	–
Income taxes payable						16	7	9
Liabilities directly associated with assets classified as held for sale						–	154	(154)
Elimination						(140)	(140)	–
Total liabilities						2,899	2,899	–

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 37(a)).

2 Kazakhmys Power represents the Group's captive power stations.

3 Tangible and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Mining and Kazakhmys Power; (ii) Germany – MKM; and (iii) Kazakhmys Mining also includes $57 million (2011: $168 million) in Kyrgyzstan.

4 Non-current investments and other assets include other non-current investments (note 20), the Group's investment in Ekibastuz GRES-1 LLP and a Hydro power development project company in Kazakhstan within the Kazakhmys Power segment and the Group's investment in ENRC within Corporate Services.

5 Operating assets include inventories, prepayments and other current assets and trade and other receivables, including intragroup receivables.

6 Operating liabilities include trade and other payables, including intragroup payables.

4. Segment information continued

(iv) Net liquid funds/(debt)

At 31 December 2012

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Corporate Services	Total	Continuing operations	Discontinued operations[1]
Cash and cash equivalents	**147**	**4**	**20**	**1,079**	**1,250**	**1,246**	**4**
Current investments	**65**	**–**	**–**	**450**	**515**	**515**	**–**
Borrowings[3]	**(854)**	**(125)**	**(73)**	**(2,468)**	**(3,520)**	**(3,395)**	**(125)**
Inter-segment borrowings[4]	**854**	**–**	**73**	**–**	**927**	**927**	**–**
Net liquid funds/(debt)	**212**	**(121)**	**20**	**(939)**	**(828)**	**(707)**	**(121)**

At 31 December 2011

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[1]
Cash and cash equivalents	262	9	4	–	836	1,111	1,102	9
Current investments	60	–	–	–	750	810	810	–
Borrowings[3]	(392)	(121)	–	–	(1,893)	(2,406)	(2,285)	(121)
Inter-segment borrowings[4]	392	–	–	–	–	392	392	–
Net liquid funds/(debt)	322	(112)	4	–	(307)	(93)	19	(112)

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 37(a)).
2 Kazakhmys Power represents the Group's captive power stations.
3 Borrowings of Corporate Services are presented net of capitalised arrangement fees of $32 million (2011: $21 million).
4 Borrowings of Corporate Services include amounts lent to the Kazakhmys Mining and Kazakhmys Power segments.

(v) Capital expenditure

Year ended 31 December 2012

$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1]	Corporate Services	Total	Continuing operations	Discontinued operations[2]
Property, plant and equipment	**1,011**	**11**	**47**	**2**	**1,071**	**1,060**	**11**
Mining assets	**217**	**–**	**–**	**–**	**217**	**217**	**–**
Intangible assets	**18**	**–**	**–**	**–**	**18**	**18**	**–**
Capital expenditure[3]	**1,246**	**11**	**47**	**2**	**1,306**	**1,295**	**11**

Year ended 31 December 2011

$ million	Kazakhmys Mining	MKM	Kazakhmys Power[1]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[2]
Property, plant and equipment	550	16	40	20	1	627	588	39
Mining assets	121	–	–	–	–	121	121	–
Intangible assets	8	–	–	–	–	8	8	–
Capital expenditure[3]	679	16	40	20	1	756	717	39

1 Kazakhmys Power represents the Group's captive power stations. In the year ended 31 December 2011, the segment also included the capital expenditure of the Maikuben West coal mine for the period ended 17 May 2011 which was included within discontinued operations (see note 37(c)).
2 In the year ended 31 December 2012, only MKM is included within discontinued operations. For the year ended 31 December 2011, discontinued operations consisted of MKM for the full year, the Maikuben West coal mine (included within Kazakhmys Power) for the period up to its disposal on 17 May 2011 and Kazakhmys Petroleum for the period ended 23 December 2011, the date it was sold (see note 37).
3 Capital expenditure within the Kazakhmys Mining segment includes capitalised depreciation of $7 million (2011: $6 million) and $5 million (2011: $3 million) for property, plant and equipment and mining assets, respectively. In addition during the year, Kazakhmys Mining capitalised borrowing costs of $36 million (2011: $28 million) and $3 million (2011: $nil) for property, plant and equipment and mining assets, respectively. Also during the year, the site restoration and clean up provisions and provisions for payments for licences within Kazakhmys Mining were reassessed and as a result, an additional $9 million (2011: $4 million) and $5 million (2011: a release of $6 million within Kazakhmys Petroleum) have been recognised with a corresponding adjustment to property, plant and equipment and intangible assets, respectively. These amounts are non-cash items and are recorded within site restoration and clean up provisions and provisions for payments for licences. Capital expenditure also includes non-current advances paid for items of property, plant and equipment (see note 20).

(b) Segmental information in respect of revenues

Revenues by product are as follows:

$ million	2012	2011
Kazakhmys Mining		
Copper cathodes	**2,088**	2,318
Copper rods	**187**	252
Total copper products	**2,275**	2,570
Silver	**414**	479
Gold bullion	**300**	79
Gold doré	**22**	54
Zinc metal in concentrate	**154**	177
Other by-products	**61**	93
Other revenue	**59**	47
	3,285	3,499
MKM		
Wire	**490**	577
Sheets and strips	**635**	695
Tubes and bars	**309**	360
Metal trade	**32**	33
	1,466	1,665
Kazakhmys Power[1]		
Electricity generation	**358**	297
Coal	**–**	25
	358	322
Total revenues	**5,109**	5,486
Continuing operations	**3,353**	3,563
Discontinued operations	**1,466**	1,690
Share of joint venture's revenues – Kazakhmys Power	**290**	233
Total revenues	**5,109**	5,486

[1] Kazakhmys Power revenues include the revenues of the Maikuben West coal mine for the period up to its disposal on 17 May 2011. In addition, Kazakhmys Power revenues include 50% of the revenues of Ekibastuz GRES-1 LLP and the external revenues of the Group's captive power stations for the years ended 31 December 2012 and 2011.

Revenues by destination to third parties are as follows:

$ million	2012	2011
Continuing operations		
Europe	**665**	1,454
China	**1,769**	1,629
Kazakhstan	**769**	343
Other	**150**	137
	3,353	3,563
Discontinued operations		
Europe	**1,153**	1,325
China	**24**	16
Kazakhstan	**–**	25
Other	**289**	324
	1,466	1,690
Share of joint venture's revenues		
Kazakhstan	**279**	210
Other	**11**	23
	290	233
Total revenues	**5,109**	5,486

Year ended 31 December 2012

Four customers, three of which are collectively under common control, within the Kazakhmys Mining segment represent 37% of total Group revenue for the year from continuing operations. The total revenue from these customers is $1,245 million. The revenue from the three customers under common control of $999 million represents 30% of the total Group revenue from continuing operations. Revenues from the fourth major customer of $246 million represent 7% of total Group revenue from continuing operations.

4. Segment information continued

Year ended 31 December 2011

Four customers, three of which are collectively under common control, within the Kazakhmys Mining segment represent 45% of total Group revenue for the year from continuing operations. The total revenue from these customers is $1,600 million. The revenue from the three customers under common control of $1,207 million represents 34% of the total Group revenue from continuing operations. Revenues from the fourth major customer of $393 million represent 11% of total Group revenue from continuing operations.

5. Special items

Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business.

$ million	2012	2011
Continuing operations		
Special items within operating profit:		
Additional disability benefits obligation charge arising from new legislation enacted in Kazakhstan[1]	–	146
Impairment charges/(reversals) – note 7	192	(15)
Impairment charge against property, plant and equipment[2]	110	11
Impairment charge/(reversal) against mining assets[2]	82	(7)
Provisions released against inventories	–	(19)
Loss on disposal of subsidiary – note 36	8	–
	200	131
Special items within profit before taxation:		
Subsidiary businesses		
Impairment charge against investment in associate	2,223	–
Associate	385	(1)
Impairment charge recognised by associate	316	–
Onerous contract provision	85	–
Net gain arising from business combinations	(23)	–
Acquisition related transaction costs/(credit)	7	(1)
	2,808	130
Special items within profit for the year:		
Subsidiary businesses	(73)	(57)
Refund of previous EPT payments	(60)	–
Recognition of a deferred tax asset resulting from the impairment of Bozymchak	(13)	–
Recognition of a deferred tax asset on additional disability benefits obligation arising from new legislation enacted in Kazakhstan	–	(29)
Recognition of a deferred tax asset on major social projects	–	(26)
Tax effect of special items	–	(2)
	2,735	73
Discontinued operations		
Special items within operating profit:		
Impairment charges – note 7	17	453
Impairment charge against intangible assets – Kazakhmys Petroleum	–	444
Impairment charge against property, plant and equipment – MKM	3	1
Provisions against inventories – MKM	14	8
Loss on disposal of subsidiaries – note 36	13	44
	30	497
Special items within profit for the year:		
Release of deferred tax liabilities resulting from the impairment of MKM	(2)	(2)
	28	495

1 During 2011, new legislation was enacted in Kazakhstan which increased the level of disability benefits payable to former and current disabled employees of the Group. The enhancement in the level of disability benefits payable has resulted in an additional provision being recognised in the Group's defined benefit obligation (see note 28).

2 These impairment charges primarily relate to the Bozymchak project (see note 7).

6. Cost of sales, selling and distribution expenses, administrative expenses and operating income/expenses

(a) Cost of sales

$ million	2012	2011
Raw materials	**509**	504
Employee salaries and payroll taxes	**474**	354
Depreciation, depletion and amortisation	**219**	187
Production overheads	**416**	318
Mineral extraction tax	**260**	280
Other taxes	**34**	43
Utilities	**34**	49
Change in work in progress and finished goods	**77**	(116)
Continuing operations	**2,023**	1,619
Discontinued operations	**1,359**	1,583
	3,382	3,202

(b) Selling and distribution expenses

$ million	2012	2011
Transportation expenses	**30**	30
Port charges	**24**	20
Employee salaries and payroll taxes	**2**	3
Raw materials	**1**	2
Other	**7**	9
Continuing operations	**64**	64
Discontinued operations	**39**	54
	103	118

(c) Administrative expenses

$ million	2012	2011
Employee salaries and payroll taxes	**236**	190
Personal injury claims	**207**	165
Legal and professional	**64**	87
Social responsibility costs	**52**	78
Levies and charges	**9**	52
Transportation	**58**	49
Depreciation and amortisation	**41**	38
Business travel	**27**	23
Medical and social support	**22**	22
Supplies	**16**	14
Utilities	**23**	13
Communication	**6**	5
Bank fees	**2**	2
Other	**42**	13
Continuing operations	**805**	751
Discontinued operations	**24**	25
	829	776

(d) Other operating (expense)/income

$ million	2012	2011
Lease income	**18**	13
Depreciation of leased assets	**(16)**	(11)
Loss on disposal of subsidiary	**(8)**	–
Loss on disposal of property, plant and equipment	**(2)**	–
Other (net)	**(9)**	3
Net operating (expense)/income attributable to continuing operations	**(17)**	5
Net operating income attributable to discontinued operations	**5**	5
	(12)	10

7. Impairment losses

$ million	2012	2011
Impairment charge against property, plant and equipment – note 7(a) and note 7(d)[1]	**110**	11
Impairment charge/(reversal) against mining assets – note 7(a) and note 7(e)[1]	**82**	(7)
Provisions raised/(released) against inventories – note 7(b)	**(1)**	(1)
Provisions raised against prepayments and other current assets	**7**	–
Provisions raised against trade and other receivables – note 7(c)	**4**	6
Continuing operations	**202**	9
Discontinued operations – note 7(f) [1]	**18**	453
	220	462

[1] These impairments are considered to be special items for the purposes of determining the Group's key financial indicator of EBITDA (excluding special items) and Underlying Profit (see note 5).

Year ended 31 December 2012

(a) Kazakhmys Mining – impairment charge against mining assets and property, plant and equipment

The Bozymchak gold/copper development project, included in the Kazakhmys Mining segment, has been subject to an impairment review due to difficulties experienced from operating in Kyrgyzstan. The impairment review has assumed a revised date for commercial production, additional capital costs and re-assessed the risks associated with the project's execution. As a result, the Group has recognised an impairment charge of $162 million against the mining assets and property, plant and equipment of the Bozymchak project. The impairment charge reduces the carrying value of the Bozymchak project to its recoverable amount of $106 million, determined as its value-in-use on a discounted cash flow basis, as at 31 December 2012. The charge of $162 million has been recorded against tangible assets (mining assets – $71 million and property, plant and equipment – $91 million) with an associated deferred tax credit of $13 million. The cash flow forecasts were discounted at a pre-tax rate of 16%.

The impairment charge against property, plant and equipment also includes $11 million relating to transportation infrastructure owned by the Group following a change in the intended use of the assets and a reassessment of their future cash flows.

In addition, during 2012 mining assets of $11 million were impaired which relate to the Kazakhmys Mining segment. Of this total, $7 million relates to the write-down of the assets attributable to the Nikolayevsky mine which was suspended in August 2012 as it was no longer considered economically viable to operate this mine.

(b) Kazakhmys Mining – inventories

Included within the provisions against inventories is the release of an impairment charge of $1 million (2011: charge of $18 million) relating to general slow moving and obsolete inventory. In 2011, the general and slow moving inventory impairment provision was offset by the reversal of a previous impairment provision of $19 million held against certain by-products for which sales contracts were agreed at prices greater than the previously recognised net realisable value. Only impairment charges or reversals recognised against ore and finished goods inventories are treated as special items (see note 5).

(c) Kazakhmys Mining – trade and other receivables

Provisions against trade and other receivables include an amount of $4 million (2011: $6 million) within Kazakhmys Mining in respect of trust activities. Under the terms of its subsoil licences, Kazakhmys LLC is required to provide certain social services to the communities in which its mining activities operate. These trust activities are provided by municipal authority companies under trust management agreements. For most receivable balances due from municipal authorities, full provision is recognised in light of their past payment histories.

Year ended 31 December 2011

(d) Kazakhmys Mining – property, plant and equipment

In 2011, the impairment charge mainly relates to an impairment provision of $12 million which has been recognised to write down administrative land and buildings held for disposal to fair value less costs to sell.

(e) Kazakhmys Mining – mining assets

The $7 million credit in 2011 mainly relates to a reversal of impairment provisions held against certain mining assets which were considered to be uneconomical in prior years and which have since been prepared for future extraction due to higher commodity prices.

(f) Discontinued operations

Impairment losses within discontinued operations include the impairment of MKM of $17 million (2011: $9 million) following the write-down of the business to its fair value less costs to sell (see note 37(a)).

For the year ended 31 December 2011, impairment losses include the impairment of Kazakhmys Petroleum of $444 million (see note 37(b)). Following drilling results received at the end of June 2011, and the receipt of an offer to purchase the Kazakhmys Petroleum business in July 2011, the Directors performed an impairment review of Kazakhmys Petroleum. The total consideration receivable from the disposal of $119 million, comprising $100 million in cash and a completion adjustment of $19 million, was used to determine the recoverable amount, resulting in a $444 million impairment charge being recognised. The sale and purchase agreement was signed on 24 August 2011 and the sale completed on 23 December 2011. For the year ended 31 December 2012, the negotiations over the completion adjustment were concluded which resulted in the reduction of the consideration receivable by $13 million.

8. Employee information

$ million	2012	2011
Wages and salaries	**659**	531
Social security costs	**58**	56
Post-employment benefits – note 28	**192**	158
Continuing operations	**909**	745
Discontinued operations	**57**	66
	966	811

Other non-monetary employee benefits (including sanatorium visits, medical services, nourishment and treatment expenses) are also provided by Kazakhmys LLC, and are included in the income statement in the expense line relating to the nature of the cost.

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

	2012	2011
Kazakhmys Mining	**56,324**	55,376
MKM[1]	**1,095**	1,099
Kazakhmys Power[2]	**2,596**	3,891
Kazakhmys Petroleum[3]	**–**	135
Corporate Services	**384**	318
Total employees	**60,399**	60,819

1 MKM is included within discontinued operations for the current and prior years (see note 37(a)).

2 Kazakhmys Power includes the employees of the Group's captive power stations for the current and prior years. The employees of the Maikuben West coal mine are only included for the period ended 17 May 2011, the date on which it was sold (see note 37(c)). Ekibastuz GRES-1 LLP is treated as an equity accounted joint venture so its employees are not included in the analysis above.

3 The employees of Kazakhmys Petroleum are only included for the period ended 23 December 2011, the date on which it was sold (see note 37(b)).

Analysed as:

	2012	2011
Central Asia[1]	**59,237**	59,666
Germany	**1,095**	1,099
UK	**56**	48
Netherlands	**2**	2
China	**9**	4
	60,399	60,819

1 Includes Kazakhstan and Kyrgyzstan.

The average weekly number of employees during the year within continuing operations is 59,304 (2011: 59,249) and 1,095 (2011: 1,570) within discontinued operations.

9. Key management personnel

In accordance with IAS 24 'Related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel of the Group during the year ended 31 December 2012 are deemed to be the Directors of the Company and the Chief Financial Officer, the Chief Operating Officer, Head of Projects, Head of Human Resources and Head of the Commercial Division. For the year ended 31 December 2011, prior to his appointment to the Group's Board of Directors, the Chief Executive Officer of Kazakhmys LLC was also deemed to be key management of the Group.

Compensation for key management personnel (including Directors) comprises the following:

$ million	2012	2011
Salaries	**9.6**	8.9
Annual bonuses	**4.0**	4.8
Share awards[1]	**3.9**	2.6
Benefits	**0.9**	0.8
	18.4	17.1

1 Share awards are long term in nature which will be awarded after a three year vesting period (see note 38(a)).

Disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report and form part of these consolidated financial statements.

10. Auditor's remuneration

The auditor's remuneration for services provided to the Group during the year ended 31 December 2012 was $2.3 million (2011: $3.4 million), comprised as follows:

$ million	2012	2011
Audit and other services:		
Amounts receivable by the Company's auditor and its associates for the audit of these financial statements	**0.8**	0.8
Amounts receivable by the Company's auditor and its associates in respect of:		
– the audit of financial statements of subsidiaries of the Company	**1.2**	1.6
– audit-related assurance services	**0.3**	0.4
– regulatory reporting services pursuant to legislation as reporting accountants	**–**	0.1
	2.3	2.9
Other services:		
– services relating to corporate finance transactions	**–**	0.5
Total remuneration	**2.3**	3.4

Other services relating to corporate finance transactions of $nil (2011: $0.5 million) were payable to Ernst & Young LLP for services in connection with the Group's secondary listing on the Hong Kong Stock Exchange.

In June 2012, after a competitive tender process, KPMG Audit Plc was appointed as the Group's auditor replacing Ernst & Young LLP. In the amounts above, auditor's remuneration for services provided during the year ended 31 December 2011 were accordingly paid to Ernst & Young LLP, and during the year ended 31 December 2012, to KPMG Audit Plc.

Auditor remuneration for the audit of the financial statements of MKM for the year ended 31 December 2012 and the review of the financial information for the six months ended 30 June 2012 of $0.2 million is payable to MKM's statutory auditors, Ernst & Young GmBH in Germany. These amounts are not included in the table above.

11. Finance income and finance costs

$ million	2012	2011
Finance income		
Interest income	**17**	8
Foreign exchange gains	**47**	61
Finance income attributable to continuing operations	**64**	69
Interest income	**–**	–
Foreign exchange gains	**10**	14
Finance income attributable to discontinued operations	**10**	14
	74	83
Finance costs		
Interest expense	**(79)**	(42)
Total interest expense	**(118)**	(70)
Less: amounts capitalised to the cost of qualifying assets[1]	**39**	28
Interest on employee obligations	**(15)**	(14)
Unwinding of discount on provisions	**(8)**	(7)
Finance costs before foreign exchange losses	**(102)**	(63)
Foreign exchange losses	**(53)**	(74)
Finance costs attributable to continuing operations	**(155)**	(137)
Interest expense	**(5)**	(9)
Unwinding of discount on provisions	**–**	(1)
Foreign exchange losses	**(10)**	(15)
Finance costs attributable to discontinued operations	**(15)**	(25)
	(170)	(162)

[1] At 31 December 2012, the Group capitalised to the cost of qualifying assets $39 million (2011: $28 million) of borrowing costs incurred on the outstanding debt during the period on the CDB/Samruk-Kazyna financing facilities at an average rate of interest of 5.54% (2011: 5.24%).

12. Income taxes

(a) Income statement

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

$ million	2012	2011
Current income tax		
Corporate income tax – current period (UK)	**7**	21
Corporate income tax – current period (overseas)	**148**	298
Corporate income tax – prior periods	**23**	(10)
Excess profits tax – prior periods	**(60)**	(21)
Deferred income tax		
Corporate income tax – current period temporary differences	**(32)**	(67)
Income tax expense attributable to continuing operations	**86**	221
Current income tax attributable to discontinued operations	**(7)**	3
Deferred income tax attributable to discontinued operations	**–**	(6)
Income tax credit attributable to discontinued operations	**(7)**	(3)
Total income tax expense	**79**	218

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

$ million	2012	2011
(Loss)/profit before taxation from continuing operations	**(2,204)**	1,623
At UK statutory income tax rate of 24.5% (2011: 26.5%)[1]	**(540)**	430
Tax effect of share of profits from joint venture	**(31)**	(27)
Tax effect of share of losses/(profits) from associate	**63**	(123)
Under/(over) provided in previous years – current income tax	**23**	(10)
Unrecognised tax losses	**16**	–
Effect of domestic tax rates applicable to individual Group entities	**11**	(66)
Deferred tax asset recognised on major social projects	**–**	(26)
Non-deductible items:		
Impairment charge against investment in associate	**545**	–
Transfer pricing	**6**	26
Other non-deductible expenses	**53**	38
Release of excess profits tax provision	**–**	(21)
Refund of previous excess profits tax payments	**(60)**	–
Income tax expense attributable to continuing operations	**86**	221
Income tax attributable to discontinued operations	**(7)**	(3)
Total income tax expense	**79**	218

[1] For 2012, the UK statutory rate for January to March 2012 was 26.0% and for April to December 2012 was 24.0%, giving a weighted average full year rate of 24.5%. For 2011, the UK statutory income tax rate for January to March 2011 was 28.0% and for April to December 2011 was 26.0%, giving a weighted average full year rate of 26.5%.

Corporate income tax (CIT) is calculated at 24.5% (2011: 26.5%) of the assessable profit for the year for the Company and its UK subsidiaries, 20.0% for the operating subsidiaries in Kazakhstan (2011: 20.0%) and 10.0% for the Group's Kyrgyzstan based subsidiary (2011:10%). MKM, which is included as part of discontinued operations, has a tax rate of 28.5% (2011: 28.5%) which relates to German corporate income tax and trade tax.

Effective tax rate

Tax charges are affected by the mix of profits and tax jurisdictions in which the Group operates. The lower CIT rate in Kazakhstan and the recognition of equity accounted earnings of ENRC and Ekibastuz GRES-1 on a post-tax basis will have the effect of lowering the Group's overall future effective tax rate below the UK statutory corporate tax rate of 24%. The impact of transfer pricing provisions and non-deductible items, including impairment losses, will increase the Group's overall future effective tax rate.

The following factors impact the Group's effective tax rate for the year ended 31 December 2012:

Unrecognised tax losses

Following an assessment over the recoverability of certain deferred tax assets recognised in respect of brought forward losses of $71 million, the Group has written-off certain deferred tax assets of $16 million relating primarily to loss-making subsoil use contracts which are no longer considered to be in a position to generate sufficient taxable profits to offset these losses in the foreseeable future. Consequently, the related deferred tax assets are deemed as irrecoverable.

Impairment charge against investment in associate

At 31 December 2012, the Group recognised an impairment charge against its investment in ENRC of $2,223 million. As there is no tax relief available on the ENRC impairment charge, the impairment has put the Group into a loss making position without a corresponding tax credit, thereby placing considerable upward pressure on the Group's effective tax rate.

12. Income taxes continued

Transfer pricing

Notwithstanding recent changes to Kazakhstan's transfer pricing legislation to closer align it with international trading practices, inconsistencies still arise between the transfer pricing requirements in Kazakhstan and the UK. Consequently, certain of the Group's profits are taxed in both jurisdictions due to intercompany sales and purchase contracts that have been put in place within the Group which places upward pressure of $3 million (2011: $23 million) on the Group's effective tax rate.

In addition, certain sales contracts entered into by Kazakhmys LLC with European and Russian customers included trading terms that are not fully acceptable under Kazakhstan transfer pricing legislation. Consequently, a provision of $3 million has been recognised based on this anticipated exposure at 31 December 2012 (2011: $3 million).

Non-deductible expenses

Included within non-deductible expenses are impairment charges and provisions recognised against various assets and other ongoing business expenses within Kazakhmys Mining. The reversal of the provision for environmental pollution charges (see note 29(c)) and the related fines and penalties amounting to $38 million in aggregate is non-taxable and offset non-deductible expenses.

Excess profits taxation

In August 2011, the tax authorities completed the audit of Kazakhmys LLC for the years 2006 and 2008 inclusive, with no additional claims being raised in respect of excess profits taxation (EPT). Subsequently, in October 2011 the Supreme Court of Kazakhstan issued a ruling that Kazakhmys LLC should not have been liable for EPT in the periods up to and including 2008. As a result of the completed tax audit, which confirmed the EPT methodology adopted by the company for the years 2006 to 2008, together with a previous tax audit (for the years 2003 to 2005), along with the Supreme Court's ruling, the Directors believed that no further obligations existed in respect of EPT for the years 2003 to 2008. As a result, the EPT provision of $21 million recognised in earlier years relating to the uncertainties over the judgements that were made in respect of Kazakhmys LLC's methodology of computing EPT in the periods up to and including 2008 was released at 31 December 2011. The total EPT provision recognised as at 31 December 2010 was $49 million, including $28 million related to fines and penalties.

In 2012, following the Supreme Court's ruling, Kazakhmys LLC lodged a claim with the Ministry of Finance to seek reimbursement of past EPT payments amounting to $108 million for the periods up to and including 2008. In the second half of 2012, the Ministry of Finance partially accepted Kazakhmys LLC's position and $60 million has been set-off against the income tax and mineral extraction tax liabilities for the year ended 31 December 2012. The remaining $48 million has been challenged by the tax authorities who believe that this amount relates to periods beyond the Kazakhstan statute of limitations (see note 34(b)). The reimbursement of $60 million has been achieved by reducing the income tax and mineral tax payments for the year ended 31 December 2012 and has lowered the Group's effective income tax rate.

The following additional factors impacted the Group's effective tax rate for the year ended 31 December 2011 only:

Deferred tax asset on major social projects

In 2011, the Group determined that the cost of constructing the major social projects in Kazakhstan will be deductible against taxable profits in the future as a result of amendments in the tax legislation which were introduced in January 2011. The introduction of these amendments has resulted in the recognition of a $26 million deferred tax asset at 31 December 2011.

Non-deductible expenses

Included within non-deductible expenses are the additional tax assessments and related fines and penalties, resulting from the completion of the tax audit conducted at Kazakhmys LLC for the years 2006 to 2008 inclusive in August 2011. As a result, the Directors have made a provision for these additional tax assessments, which represents the Directors' best estimate of the amounts that are expected to be paid to settle this potential liability. Also included within non-deductible expenses is the charge for the incremental provision for environment pollution charges (see note 29(c)) and the related fines and penalties amounting to $11 million. The reversal of the provision for fines and penalties of $28 million relating to the release of the provision for excess profits tax (refer above) is non-taxable and offsets the upward pressure on the Group's effective tax rate arising from non-deductible items. Other non-deductible items relate to ongoing business expenses and impairment losses at Kazakhmys Mining.

(b) Recognised deferred tax assets and liabilities

The amounts of deferred taxation assets/(liabilities) provided in the consolidated financial statements are as follows:

$ million	As at 1 January 2012	Continuing operations	Net exchange translation	As at 31 December 2012
Intangible assets	(7)	(1)	–	(8)
Property, plant and equipment	(79)	–	1	(78)
Mining assets	6	4	–	10
Trade and other receivables	12	(1)	–	11
Provisions and employee benefits	47	36	(1)	82
Trade and other payables	56	5	(1)	60
Tax losses	20	(14)	–	6
Share-based payment schemes	–	3	–	3
Deferred tax asset, net	55	32	(1)	86
Analysed as:				
Deferred tax asset	61	27	(1)	87
Deferred tax liability	(6)	5	–	(1)

$ million	As at 1 January 2011	Continuing operations	Disposal of subsidiary	As at 31 December 2011
Intangible assets	(6)	(1)	–	(7)
Property, plant and equipment	(77)	(2)	–	(79)
Mining assets	–	6	–	6
Trade and other receivables	8	4	–	12
Provisions and employee benefits	16	36	(5)	47
Trade and other payables	27	29	–	56
Tax losses	25	(5)	–	20
Deferred tax (liability)/asset, net	(7)	67	(5)	55
Analysed as:				
Deferred tax asset	9	52	–	61
Deferred tax liability	(16)	15	(5)	(6)

(c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the consolidated financial statements are as follows:

	2012		2011	
$ million	**Temporary difference**	**Deferred tax asset**	Temporary difference	Deferred tax asset
Continuing operations: Kazakhstan – tax losses				
Losses carried forward	**87**	**17**	6	1
Continuing operations: UK – tax losses				
Losses carried forward	**31**	**7**	–	–
Discontinued operations: Germany – tax losses				
Corporate income tax	**166**	**26**	174	28
Trade tax	**124**	**16**	134	17
Total losses carried forward	**290**	**42**	308	45

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

(i) Kazakhstan

At 31 December 2012, Kazakhmys LLC has corporate income tax losses on certain subsoil use contracts that can be carried forward and used against future taxable profits arising from those subsoil use contracts. Under Kazakhstan tax legislation, tax losses from loss making subsoil use contracts may not be offset against the taxable profits of profitable subsoil use contracts. Kazakhmys LLC expects that certain subsoil use contracts will be in a tax loss making position for the foreseeable future and will have no taxable profits against which the losses can be offset. Therefore, no deferred tax asset has been recognised in respect of the tax losses associated with these subsoil use contracts. Tax losses arising from subsoil use contracts that are expected to be profitable in the future have been recognised as deferred tax assets.

(ii) United Kingdom

Certain companies in the UK have tax losses that can be carried forward and used against future taxable profits in these companies. There is no time restriction over the utilisation of tax losses. There is insufficient certainty that a taxable profit will arise in these companies against which the losses can be offset. For these reasons, no deferred tax asset has been recognised.

(iii) Germany

MKM has corporate income tax losses that can be carried forward and used against future taxable profits, subject to restrictions set out under German tax legislation. There is no time restriction over the utilisation of tax losses. Due to the past history of tax losses, there is insufficient certainty over the ability of MKM to utilise these losses and consequently, no deferred tax asset has been recognised.

(d) Unrecognised deferred tax liability

The gross temporary differences in respect of the undistributed reserves of the Group's subsidiaries, as shown in their statutory accounts prepared in accordance with applicable accounting standards, are as follows:

$ million	**2012**	2011
Undistributed reserves of subsidiaries	**6,477**	5,986

The Group has not recognised all of the deferred tax liability in respect of the distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

13. Earnings per share

(a) Basic and diluted EPS

Basic EPS is calculated by dividing (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. Purchases of the Company's shares by the Employee Benefit Trust and by the Company under the share buy-back programme are held in treasury and treated as own shares.

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

$ million	2012	2011
Net (loss)/profit attributable to equity shareholders of the Company from continuing operations	**(2,291)**	1,402
Net profit/(loss) attributable to equity shareholders of the Company from discontinued operations	**20**	(472)
	(2,271)	930

Number	2012	2011
Weighted average number of ordinary shares of 20 pence each for EPS calculation	**524,496,185**	533,794,387
EPS – basic and diluted ($)		
From continuing operations	**(4.37)**	2.63
From discontinued operations	**0.04**	(0.88)
	(4.33)	1.75

(b) EPS based on Underlying Profit

The Group's Underlying Profit is the profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and minority interest effects, as shown in the table below. EPS based on Underlying Profit is calculated by dividing Underlying Profit by the number of ordinary shares of 20 pence each outstanding during the year. The Directors believe EPS based on Underlying Profit provides a more consistent measure for comparing the underlying trading performance of the Group.

The following shows the reconciliation of Underlying Profit from the reported (loss)/profit and the share data used in the computations for EPS based on Underlying Profit:

$ million	2012	2011
Net (loss)/profit attributable to equity shareholders of the Company from continuing operations	**(2,291)**	1,402
Special items within operating profit – note 5:		
Subsidiary businesses	**200**	131
Special items within profit before taxation – note 5:		
Subsidiary businesses	**2,223**	–
Associate	**385**	(1)
Special items within profit for the year – note 5:		
Subsidiary businesses	**(73)**	(57)
Underlying Profit from continuing operations	**444**	1,475
Net profit/(loss) attributable to owners of the Company from discontinued operations	**20**	(472)
Special items within operating profit – note 5	**30**	497
Special items within profit for the year – note 5	**(2)**	(2)
Underlying Profit from discontinued operations	**48**	23
Total Underlying Profit	**492**	1,498

Number	2012	2011
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	**524,496,185**	533,794,387
EPS based on Underlying Profit – basic and diluted ($)		
From continuing operations	**0.85**	2.76
From discontinued operations	**0.09**	0.04
	0.94	2.80

14. Dividends paid and proposed

(a) Dividends paid

The dividends paid during the year ended 31 December 2012 and 2011 are as follows:

	Per share US cents	Amount $ million
Year ended 31 December 2012		
Final dividend in respect of year ended 31 December 2011	**20.0**	**105**
Interim dividend in respect of year ended 31 December 2012	**3.0**	**16**
	23.0	**121**
Year ended 31 December 2011		
Final dividend in respect of year ended 31 December 2010	16.0	86
Interim dividend in respect of year ended 31 December 2011	8.0	43
	24.0	129

(i) Year ended 31 December 2012

On 15 May 2012, the Company paid the final dividend of $105 million in respect of the year ended 31 December 2011 to shareholders on the register as at 20 April 2012.

On 3 October 2012, the Company paid an interim dividend of $16 million in respect of the year ended 31 December 2012 to shareholders on the register as at 7 September 2012.

(ii) Year ended 31 December 2011

On 17 May 2011, the Company paid the final dividend of $86 million in respect of the year ended 31 December 2010 to shareholders on the register as at 26 April 2011.

On 4 October 2011, the Company paid an interim dividend of $43 million in respect of the year ended 31 December 2011 to shareholders on the register as at 9 September 2011.

(b) Dividends declared after the balance sheet date

	Per share US cents	Amount $ million
Proposed by the Directors on 27 February 2013 (not recognised as a liability as at 31 December 2012):		
Final dividend in respect of the year ended 31 December 2012	**8.0**	**42**

15. Intangible assets

$ million	Licences	Other	Total
Cost			
At 1 January 2011	495	27	522
Additions	–	8	8
Disposals	(6)	–	(6)
Disposal of subsidiary – note 36	(451)	–	(451)
Net exchange adjustment	(3)	(1)	(4)
At 31 December 2011	35	34	69
Additions	**5**	**13**	**18**
Disposals	**–**	**(4)**	**(4)**
At 31 December 2012	**40**	**43**	**83**
Amortisation			
At 1 January 2011	6	7	13
Amortisation charge	1	2	3
Impairment – note 7(f)	444	–	444
Disposal of subsidiary	(444)	–	(444)
At 31 December 2011	7	9	16
Amortisation charge	**2**	**5**	**7**
Disposals	**–**	**(4)**	**(4)**
At 31 December 2012	**9**	**10**	**19**
Net book value			
At 31 December 2012	**31**	**33**	**64**
At 31 December 2011	28	25	53

(a) Non-cash transactions

During the year ended 31 December 2012, the Group reassessed the payment for licences provision which resulted in an increase of $5 million within Kazakhmys Mining (2011: $6 million was derecognised within Kazakhmys Petroleum) which were capitalised by the Group in respect of contractual reimbursements to the Government for geological information and social commitments. This amount is a non-cash item and is recorded within provisions for payments of licences.

(b) Other

The amortisation charge for the year is allocated to production expenses $2 million (2011: $1 million) and administrative expenses $5 million (2011: $2 million) as appropriate.

16. Property, plant and equipment

$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2011	1,117	1,699	348	341	3,505
Additions	8	143	35	388	574
Capitalised borrowing costs	–	–	–	28	28
Capitalised depreciation	–	–	–	6	6
Transfers	(2)	131	5	(134)	–
Disposals	(14)	(12)	(6)	(6)	(38)
Disposal of subsidiary – note 36	–	(112)	(5)	(5)	(122)
Net exchange adjustment	(7)	(13)	(2)	(5)	(27)
At 31 December 2011	1,102	1,836	375	613	3,926
Additions	**19**	**129**	**71**	**454**	**673**
Capitalised borrowing costs	**–**	**–**	**–**	**36**	**36**
Capitalised depreciation	**–**	**–**	**–**	**7**	**7**
Transfers	**26**	**64**	**5**	**(95)**	**–**
Disposals	**(20)**	**(26)**	**(52)**	**(3)**	**(101)**
Net exchange adjustment	**(15)**	**(28)**	**(6)**	**(12)**	**(61)**
At 31 December 2012	**1,112**	**1,975**	**393**	**1,000**	**4,480**
Depreciation and impairment					
At 1 January 2011	474	920	151	22	1,567
Depreciation charge	49	135	33	–	217
Disposals	(7)	(11)	(4)	–	(22)
Impairment – note 7(d)	6	4	4	(3)	11
Net exchange adjustment	(3)	(5)	(2)	–	(10)
At 31 December 2011	519	1,043	182	19	1,763
Depreciation charge	**53**	**150**	**33**	**–**	**236**
Disposals	**(12)**	**(19)**	**(20)**	**–**	**(51)**
Impairment – note 7(a)	**16**	**3**	**(1)**	**92**	**110**
Net exchange adjustment	**(8)**	**(15)**	**(3)**	**–**	**(26)**
At 31 December 2012	**568**	**1,162**	**191**	**111**	**2,032**
Net book value					
At 31 December 2012	**544**	**813**	**202**	**889**	**2,448**
At 31 December 2011	583	793	193	594	2,163

17. Mining assets

$ million	Exploration cost	Mine development costs	Mine stripping costs	Construction in progress	Total
Cost					
At 1 January 2011	177	364	40	69	650
Additions	33	–	9	76	118
Capitalised depreciation	–	–	3	–	3
Transfers	7	60	–	(67)	–
Disposals	–	–	(6)	–	(6)
Net exchange adjustment	(2)	(3)	–	(1)	(6)
At 31 December 2011	215	421	46	77	759
Additions	**50**	**5**	**34**	**120**	**209**
Capitalised borrowing costs	**–**	**–**	**–**	**3**	**3**
Capitalised depreciation	**–**	**–**	**5**	**–**	**5**
Transfers	**12**	**78**	**–**	**(90)**	**–**
Disposals	**(1)**	**(6)**	**(20)**	**(1)**	**(28)**
Net exchange adjustment	**(3)**	**(8)**	**(1)**	**(1)**	**(13)**
At 31 December 2012	**273**	**490**	**64**	**108**	**935**
Depletion and impairment					
At 1 January 2011	28	153	30	–	211
Depletion charge	–	20	5	–	25
Disposals	–	–	(6)	–	(6)
Impairment – note 7(e)	–	3	(10)	–	(7)
Net exchange adjustment	–	(1)	–	–	(1)
At 31 December 2011	28	175	19	–	222
Depletion charge	**–**	**25**	**20**	**–**	**45**
Disposals	**–**	**(6)**	**(19)**	**–**	**(25)**
Impairment – note 7(a)	**70**	**5**	**5**	**2**	**82**
Net exchange adjustment	**(1)**	**(2)**	**–**	**–**	**(3)**
At 31 December 2012	**97**	**197**	**25**	**2**	**321**
Net book value					
At 31 December 2012	**176**	**293**	**39**	**106**	**614**
At 31 December 2011	187	246	27	77	537

18. Investment in joint venture

$ million	2012	2011
At 1 January	**838**	742
Share of profits from joint venture[1,2]	**126**	100
Net share of losses of joint venture recognised in other comprehensive income[2]	**(9)**	(4)
Dividends received	**(28)**	–
At 31 December	**927**	838

1 Share of profits from joint venture is net of tax.
2 Based on the financial statements for the year ended 31 December 2012 of Ekibastuz GRES-1 LLP.

18. Investment in joint venture continued

The investment in joint venture relates to the Group's 50% shareholding in Ekibastuz GRES-1 LLP.

The following is a summary of the financial information of the Group's investment in joint venture based on Ekibastuz GRES-1 LLP's financial statements for the years ended 31 December 2012 and 31 December 2011:

$ million	2012	2011
Share of joint venture's assets and liabilities		
Non-current assets	**640**	522
Current assets	**65**	91
	705	613
Non-current liabilities	**(95)**	(95)
Current liabilities	**(21)**	(18)
	(116)	(113)
Net assets	**589**	500
Carrying amount of the investment	**927**	838

$ million	2012	2011
Share of joint venture's revenue and profit		
Revenue	**290**	233
Operating profit	**155**	126
Net finance income	**3**	–
Income tax expense	**(32)**	(26)
Profit for the year	**126**	100

19. Investment in associate

The Group holds 334,824,860 shares in ENRC representing 26.0% of the issued share capital. There have been no changes in this holding in 2012 and 2011.

$ million	2012	2011
Investment in associate		
At 1 January	**4,600**	4,356
Share of (losses)/profits from associate[1,2]	**(258)**	466
Net share of losses of associate recognised in other comprehensive income[2]	**(33)**	(109)
Impairment charge against investment in associate	**(2,223)**	–
Dividends received	**(59)**	(113)
At 31 December	**2,027**	4,600

1 Share of (losses)/profits from associate is net of tax.
2 Based on ENRC's unaudited preliminary financial statements for the year ended 31 December 2012 published on 20 March 2013.

At 31 December 2012, the carrying value of the Group's equity investment in ENRC of $4,250 million exceeded the market value of $1,546 million by an amount that the Directors deemed as significant as envisaged by IAS 39 'Financial instruments: recognition and measurement'. Whilst the market value of the Group's investment in ENRC was below its carrying value at 31 December 2011 and 30 June 2012, the impairment reviews performed at those dates did not result in any impairment charges being recognised. However, since the impairment review performed at 30 June 2012, the price expectations and outlook for ENRC's key products has weakened, ENRC has announced a revised capital expenditure programme and, in addition, ENRC's gearing levels have increased significantly. As a result, taking these developments into account, the impairment review performed in accordance with IAS 36 'Impairment of assets' concluded that an impairment charge of $2,223 million should be recognised at 31 December 2012.

In determining the value-in-use of the ENRC investment, the Directors made assumptions of the future cash flows to be generated by ENRC using assumptions derived from publicly available information on ENRC's production volumes and capital expenditure, inflation, exchange rates and commodity price forecasts. The calculation of the value-in-use generated a range of outcomes as the calculation is particularly sensitive to changes in commodity prices, operating cost inflation, capital expenditure and the discount rate used. In addition, the valuation of certain of ENRC's development assets involved a high degree of judgement given their relatively early stage in the project lifecycle. Any changes to the assumptions adopted in the calculation of the value-in-use, individually or in aggregate, would result in a different value-in-use being determined. Accordingly, in determining a valuation point within the range of outcomes determined by the calculation of the value-in-use, the Directors have also considered ENRC's market valuation over several historical periods and the results of recent valuations performed by equity analysts.

The accounting period end of ENRC is 31 December.

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

$ million	2012	2011
Share of associate's assets and liabilities		
Total assets	**5,243**	4,034
Total liabilities	**(2,500)**	(1,113)
Net assets	**2,743**	2,921
Carrying amount of the investment	**2,027**	4,600

$ million	2012	2011
Share of associate's revenue and profit		
Revenue	**1,643**	2,003
Operating (loss)/profit	**(146)**	700
Net gain arising from business combinations	**23**	–
(Loss)/profit before finance items, taxation and share of profits from joint ventures and associates	**(123)**	700
Net finance costs and share of loss of joint ventures and associates	**(69)**	(31)
Income tax expense and non-controlling interests	**(66)**	(203)
(Loss)/profit for the year	**(258)**	466

20. Other non-current assets

$ million	2012	2011
Advances paid for property, plant and equipment	**456**	112
Non-current VAT receivable	**69**	–
Other non-current investments[1]	**25**	10
Gross value of other non-current assets	**550**	122
Provision for impairment	**(18)**	(19)
	532	103

1 Other non-current investments include long-term deposits placed in escrow accounts with financial institutions in Kazakhstan as required by the Group's site restoration obligations amounting to $9 million (2011: $8 million) and unlisted investments of $16 million (2011: $2 million), principally the Group's investment in a hydroelectric development company in Kazakhstan of $14 million.

21. Inventories

$ million	2012	2011
Raw materials and consumables	**399**	312
Work in progress	**278**	309
Finished goods	**159**	212
Gross value of inventories	**836**	833
Inventories provision	**(86)**	(89)
	750	744

The carrying amount of inventory that has been written down to net realisable value is $86 million (2011: $89 million).

22. Prepayments and other current assets

$ million	2012	2011
Advances paid for goods and services	**151**	102
VAT receivable	**185**	89
Amounts due from related parties	**13**	10
Other	**58**	46
Gross value of prepayments and other current assets	**407**	247
Provision for impairment of receivables	**(27)**	(20)
	380	227

Provision for impairment as at 31 December 2012 includes a provision against the balances due from related parties (included within 'other companies' – see note 35), amounting to $5 million (2011: $5 million).

23. Trade and other receivables

$ million	2012	2011
Trade receivables	175	241
Amounts due from related parties	58	52
Amounts due from third parties	117	189
Interest receivable	3	1
Gross value of trade and other receivables	178	242
Provision for impairment of receivables	(56)	(52)
	122	190

Included within trade receivables is an amount of $3 million (2011: $3 million within trade payables) in respect of provisionally priced metal sales which are marked-to-market using forward prices in accordance with the Group's revenue recognition accounting policy.

Provision for impairment as at 31 December 2012 includes a provision on receivables due from related parties (included within 'companies under trust management' – see note 35), amounting to $51 million (2011: $48 million).

24. Current investments

$ million	2012	2011
At 1 January	810	356
Additions	51	534
Disposals	(333)	(80)
Disposal of subsidiary – note 36(a)	(13)	–
At 31 December 2012	**515**	810

Current investments consist of bank deposits with initial terms of maturities of between three and twelve months held with institutions in the UK and Kazakhstan.

25. Cash and cash equivalents

$ million	2012	2011
Cash deposits with initial maturities of less than three months	1,107	884
Cash at bank	139	218
Continuing operations[1]	**1,246**	1,102
Discontinued operations	4	9
Cash and cash equivalents in the statement of cash flows	**1,250**	1,111

1 Current investments and cash and cash equivalents include approximately $1,545 million (2011: $900 million) of cash drawn down under the CDB/Samruk-Kazyna financing facilities which is reserved for specific development projects in accordance with the relevant facility agreements (see note 27).

26. Share capital and reserves

(a) Allotted share capital

	Number	£ million	$ million
Allotted and called up share capital – Ordinary shares of 20 pence each			
At 1 January 2011	535,240,338	107	200
Issuance of Company's share capital pursuant to acquisition of non-controlling interest in subsidiary	177,623	–	–
At 1 January 2012	535,417,961	107	200
Issuance of Company's share capital pursuant to acquisition of non-controlling interest in subsidiary	**2,219**	**–**	**–**
At 31 December 2012	**535,420,180**	**107**	**200**

During 2012, the Company issued 2,219 ordinary shares of 20 pence each and paid $2 million in consideration for the transfer of 7,160,730 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.88% at 31 December 2011 to 99.90% at 31 December 2012.

During 2011, the Company issued 177,623 ordinary shares of 20 pence each and paid $8 million in consideration for the transfer of 49,266,115 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.73% at 1 January 2011 to 99.88% at 31 December 2011.

(b) Own shares

(i) Own shares purchased under the Group's share-based payment plans

The provision of shares to the Group's share-based payment plans is facilitated by an Employee Benefit Trust (see note 38). The cost of shares purchased by the Trust is charged against retained earnings as treasury shares. The Employee Benefit Trust has waived the right to receive dividends on these shares.

At 31 December 2012, the Group, through the Employee Benefit Trust, owned 763,794 shares in the Company (2011: 848,309) with a market value of $10 million and a cost of $14 million (2011: $12 million and $16 million respectively).

(ii) Own shares purchased under the Company's share buy-back programme

On 25 August 2011, the Group announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. The buy-back programme commenced on 27 September 2011 following receipt of regulatory and shareholder approval. In the period from 1 January 2012 to 10 May 2012, when the buy-back programme ceased, the Group purchased 6,142,120 shares at a cost of $88 million. In total, since the buy-back commenced, the Group purchased 11,701,830 shares at a cost of $166 million (equivalent to 2.2% of the issued share capital prior to the commencement of the buy-back programme). The bought back shares are held in treasury and have been accounted for as own shares. The cost of the shares has been charged against retained earnings and no dividends are declared on these shares.

(c) Capital reserves

$ million	Reserve fund	Net unrealised gains/(losses) reserve	Currency translation reserve	Capital redemption reserve	Hedging reserve	Total
At 1 January 2011	42	2	(787)	6	(2)	(739)
Exchange differences on retranslation of foreign operations[1]	–	–	(21)	–	–	(21)
Recycling of exchange differences on disposal of subsidiaries	–	–	33	–	–	33
Share of losses of joint venture recognised in other comprehensive income	–	–	(4)	–	–	(4)
Share of losses of associate recognised in other comprehensive income	–	(45)	(64)	–	–	(109)
At 31 December 2011	42	(43)	(843)	6	(2)	(840)
Exchange differences on retranslation of foreign operations[1]	**–**	**–**	**(50)**	**–**	**–**	**(50)**
Share of losses of joint venture recognised in other comprehensive income	**–**	**–**	**(9)**	**–**	**–**	**(9)**
Share of gains/(losses) of associate recognised in other comprehensive income	**–**	**43**	**(76)**	**–**	**–**	**(33)**
At 31 December 2012	**42**	**–**	**(978)**	**6**	**(2)**	**(932)**

[1] Of the $50 million (2011: $21 million) of foreign exchange differences recognised in the currency translation reserve for the year, $2 million (2011: $3 million) relates to discontinued operations.

(i) Reserve fund

In accordance with legislation of the Republic of Kazakhstan the reserve fund comprises prescribed transfers from retained earnings amounting to 15% of Kazakhmys LLC's charter capital.

(ii) Net unrealised gains/(losses) reserve

The net unrealised gains/(losses) reserve is used to record the fair value movements of available for sale investments within the Group's associate, ENRC.

(iii) Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not the US dollar into the Group's presentation currency.

(iv) Capital redemption reserve

As a result of the share buy-back programme undertaken in 2008, transfers were made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

(v) Hedging reserve

The hedging reserve is used to record the fair value movements of derivative financial instruments that have been designated as cash flow hedges within the Group's associate, ENRC.

27. Borrowings

	Maturity	Average interest rate during the year	Currency of denomination	Current $ million	Non-current $ million	Total $ million
31 December 2012						
Continuing						
CDB facility – US$ LIBOR + 4.80%	2023	5.54%	US dollar	**29**	**2,439**	**2,468**
				29	**2,439**	**2,468**
Discontinued						
Revolving trade finance facility – EURIBOR + 2.25%	2015	2.60%	Euro	**–**	**125**	**125**
31 December 2011						
Continuing						
CDB facility – US$ LIBOR + 4.80%	2023	5.24%	US dollar	–	1,281	1,281
Pre-export finance facility (2008) – US$ LIBOR + 1.25%	2013	1.48%	US dollar	525	87	612
				525	1,368	1,893
Discontinued						
Revolving trade finance facility – EURIBOR + 2.25%	2015	3.83%	Euro	–	121	121

(a) Continuing operations

Pre-export finance facility – 2012

On 20 December 2012, Kazakhmys Finance PLC ('Kazakhmys Finance'), a wholly-owned subsidiary of the Company, signed a five year pre-export finance facility for $1.0 billion with a syndicate of banks to be used for general corporate purposes. The funds are available for drawing at any time within a year from the date of the agreement and once drawn will attract interest at US$ LIBOR plus 2.80%. The facility has a final maturity date of December 2017 and monthly loan repayments of principal will commence in January 2015. Kazakhmys PLC, Kazakhmys LLC and Kazakhmys Sales Limited act as guarantors of the loan. At 31 December 2012, the loan remained undrawn.

Pre-export finance facility – 2008

On 29 February 2008, Kazakhmys Finance signed a five year pre-export finance facility for $2.1 billion with a syndicate of banks to be used for general corporate purposes. As at 31 December 2012 the loan was fully repaid. Arrangement fees with an amortised cost as at 31 December 2011 of $2 million, gross cost before amortisation of $26 million, were netted off against these borrowings in accordance with IAS 39. Interest was payable on the drawn balance at a rate of US$ LIBOR plus 1.25%. Kazakhmys PLC, Kazakhmys LLC and Kazakhmys Sales Limited acted as guarantors of the loan.

China Development Bank ('CDB') and JSC Sovereign Wealth Fund Samruk-Kazyna ('Samruk-Kazyna') financing line

On 30 December 2009, Kazakhmys announced that it had secured a $2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a $3.0 billion financing line agreed between CDB and Samruk-Kazyna. Of the $2.7 billion secured for the Group, facility agreements were signed for $2.1 billion on 30 December 2009, and for a further $200 million on 12 January 2010, for the development of the Group's projects at Bozshakol and Bozymchak and other development projects, and two facility agreements for $200 million each, allocated to the Akbastau-Kosmurun and Zhomart projects, were signed on 11 June 2012. Samruk-Kazyna has separately signed an agreement for $300 million of the $3.0 billion to be used elsewhere and not for the benefit of the Group, which was subsequently repaid to Samruk-Kazyna in January 2013. As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided a guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under the $3.0 billion financing line, including 85% of the $300 million which was not on-lent for the benefit of the Group.

The funds, which were fully drawn down in January 2013, attract interest semi-annually at an annualised rate of US$ LIBOR plus 4.8%. The loans have a final maturity falling between January 2022 and August 2025 with first repayments commencing in January 2013.

As at 31 December 2012, $2.5 billion (2011: $1.3 billion) was drawn under the facility agreements. Arrangement fees with an amortised cost as at 31 December 2012 of $32 million (2011: $19 million), (gross cost before amortisation of $40 million (2011: $22 million)), have been netted off against these borrowings in accordance with IAS 39.

China Development Bank ('CDB') Aktogay finance facility

On 16 December 2011, the Group signed a $1.5 billion loan facility with the CDB, to be used for the development of the major copper project at Aktogay. The loan facility consists of two separate agreements with similar terms and conditions. The first agreement is for up to $1.3 billion and the second agreement for up to RMB1.0 billion ($159 million equivalent at the year end RMB/$ exchange rate). The US dollar agreement attracts interest at US$ LIBOR plus 4.2% and the RMB agreement attracts interest at the applicable benchmark lending rate published by the People's Bank of China. The funds are available to draw down over a three year period commencing from 31 December 2012 and mature 15 years from the date of first draw down. At 31 December 2012, the finance facility remained undrawn. Kazakhmys PLC acts as guarantor of the loan.

Revolving credit facilities

The Group has available several revolving credit facilities entered into by Kazakhmys Finance PLC for general corporate purposes and to provide standby liquidity. At 31 December 2012, facilities amounting to $250 million had maturity dates in March 2013 and a $50 million facility had a maturity date in September 2013, all of which were undrawn. In March 2013, Kazakhmys Finance PLC extended the term of a $100 million facility expiring in March 2013 for an additional two years to March 2015. The remaining facility amounting to $150 million which expired on 22 March 2013 was not renewed.

Undrawn project and general and corporate purpose facilities

$ million	2012	2011
Pre-export finance facility (within Kazakhmys Finance)	**1,000**	–
CDB Aktogay finance facility (within Kazakhmys Finance)	**1,500**	–
CDB/Samruk-Kazyna project specific finance facility (within Kazakhmys Finance)	**200**	1,400
Revolving credit facilities (within Kazakhmys Finance)	**300**	300
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	**85**	56
	3,085	1,756

(b) Discontinued operations

Revolving trade finance facility

In May 2006 MKM entered into a revolving trade finance facility with a syndicate of banks for a four year loan to finance the repayment of external borrowings and intercompany balances due to Kazakhmys LLC, and to fund working capital. In June 2009 the facility was refinanced with a new €170 million facility for three years with a final maturity in June 2012 which attracted interest at a rate of EURIBOR plus 3.00%. On 21 July 2011, the facility was refinanced for a further four years with a final maturity in July 2015. The facility was also increased from €170 million to €220 million, with interest now payable on the drawn balance at a rate of EURIBOR plus 2.25%. The loan is secured over the inventories and receivables of MKM.

28. Employee benefits

Kazakhmys LLC provides post-retirement benefits and other long-term benefits in Kazakhstan which are unfunded. These benefits include one-time retirement grants, financial aid, dental care, medical benefits, long-term disability allowances, sanatorium visits, annual financial support to pensioners, free tickets for city buses, privilege tickets for shuttle buses and funeral aid.

The amounts recognised in the income statements are as follows:

$ million	2012	2011
Employer's share of current service cost	**2**	2
Employer's share of past service cost	**–**	151
Actuarial losses recognised in period	**190**	5
Interest cost on benefits obligation	**15**	14
	207	172

During 2012, pay awards were made in Kazakhstan, particularly targeted at those categories of employees engaged in hazardous activities, which significantly exceeded the assumptions made relating to future salary increases included in the actuarial valuation performed as at 31 December 2011. Furthermore, there was a reduction in the discount rate applied in the actuarial valuation as at 31 December 2012 compared to the prior year. Consequently, the defined benefits obligation has increased significantly over the prior year.

During 2011, new legislation was enacted in Kazakhstan which increased the amounts payable for disability benefits. Under the new legislation, which applies retrospectively, the benefits payable are calculated on the basis of average salaries of employees currently in service. Prior to the change in the legislation, benefits payable were calculated on the basis of historic salaries that were increased annually by the official inflation rate prevailing in Kazakhstan. This change resulted in an average increase of approximately 290% within each category of benefits payable under the legislation over the prior year.

The expense is recognised in the following line items of the income statements:

$ million	2012	2011
Administrative expenses	**192**	158
Finance costs	**15**	14
	207	172

As the change in legislation in 2011 was non-recurring and did not impact the underlying trading performance of the business, $146 million of the total charge of $172 million, which related solely to the change in legislation, was treated as a special item.

The movement in the defined benefits obligation is as follows:

$ million	2012	2011
At 1 January	**216**	58
Employer's share of current service cost	**2**	2
Employer's share of past service cost	**–**	155
Net actuarial losses arising in the period	**190**	6
Interest cost on benefit obligation	**15**	14
Benefits provided to employees	**(41)**	(19)
Net exchange adjustment	**(5)**	–
At 31 December	**377**	216
Unrecognised actuarial losses	**(1)**	(1)
Unrecognised past service cost	**(3)**	(4)
Net liability at 31 December	**373**	211

28. Employee benefits continued

The employee benefits obligation of $373 million, consists of $36 million (2011: $34 million) related to post-employment benefits and $337 million (2011: $177 million) related to other long-term benefits.

The expected settlement of the defined benefit obligation is as follows:

$ million	2012	2011
Current	43	23
Non-current	330	188
Net liability at 31 December	373	211

The principal actuarial assumptions used in determining the defined benefit obligation are as follows:

$ million	2012	2011
Discount rate at 31 December	7.2%	8.0%
Future salary increases	3.2%	5.0%
Medical and other related cost increases	5.0%	5.0%

In addition, mortality rates were determined with reference to the 2011 mortality table of Kazakhstan as published by the Government.

Historical information is as follows:

$ million	2012	2011	2010	2009	2008
Present value of the defined benefits obligation	373	211	58	50	40
Deficit in the plan	(373)	(211)	(58)	(50)	(40)
Experience adjustments arising on plan liabilities	197	6	–	–	–

The Group continues to pay the non-monetary benefits described in note 8.

29. Provisions

$ million	Site restoration and clean up	Payments for licences	Other	Total
At 1 January 2011	49	69	27	145
Arising/(reversing) during the year	4	(6)	11	9
Utilised	(3)	(7)	–	(10)
Unwinding of discount	4	4	–	8
Disposal of subsidiary	–	(23)	–	(23)
At 31 December 2011	54	37	38	129
Arising/(reversing) during the year	**9**	**5**	**(38)**	**(24)**
Utilised	**(1)**	**(5)**	**–**	**(6)**
Unwinding of discount	**4**	**4**	**–**	**8**
Net exchange adjustment	**(1)**	**(1)**	**–**	**(2)**
At 31 December 2012	**65**	**40**	**–**	**105**
Current	**–**	**5**	**–**	**5**
Non-current	**65**	**35**	**–**	**100**
At 31 December 2012	**65**	**40**	**–**	**105**
Current	–	5	38	43
Non-current	54	32	–	86
At 31 December 2011	54	37	38	129

(a) Site restoration and clean up

The costs of decommissioning and reclamation of mines within the Group are based on the amounts included in the Group's contracts for subsoil use. The provision represents the discounted values of the estimated costs to decommission and reclaim the mines at the dates of depletion of each of the deposits. The present value of the provision has been calculated using a discount rate of 7.2% (2011: 8.0%) per year. The liability becomes payable at the end of the useful life of each mine which ranges from one to 50 years. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, and the levels of discount and inflation rates.

(b) Payments for licences for mining assets

In accordance with its contracts for subsoil use, the Group is liable to repay the costs of geological information provided by the Government of Kazakhstan for licensed deposits. The total amount payable by the Group is discounted to its present value using a discount rate of 7.2% (2011: 8.0%). The uncertainties include estimating the amount of the payments and their timing. The amounts are payable prior to 2019.

(c) Other

Other provisions are recorded where the Group has a legal or constructive obligation and a future outflow of resources is considered probable. Other provisions primarily relate to environmental pollution charges ('EPC') incurred in prior periods where there remained uncertainty over their eventual amount and the timing of settlement. The EPC provision arose from the tax audit conducted at Kazakhmys LLC for the years 2006 to 2008 inclusive, which identified a potential exposure resulting from a difference in interpretation on the applicability of stabilised rates relating to EPC and similar legislative matters. At 31 December 2011, the Directors assessed the position of Kazakhmys LLC and recognised a provision of $38 million (including fines and penalties) reflecting the probability that a settlement would be negotiated with the tax authorities following agreement being reached on the interpretation of the relevant legislation, notwithstanding that the Group had challenged the basis of certain of the claims assessed by the tax authorities in the Supreme Court of Kazakhstan. In May 2012, the Supreme Court ruled in favour of Kazakhmys LLC in its appeal over certain of the claims levied by the tax authorities. The Supreme Court's ruling confirmed the basis used by Kazakhmys LLC in calculating certain of its EPC liabilities for the periods under audit. Consequently, the Directors believe that the likelihood of further liabilities or exposures existing in respect of EPC for the periods 2006 to 2008 is remote and a provision of $38 million, including fines and penalties, relating to the possible settlement of some of the additional liabilities calculated by the tax authorities has been released as at 31 December 2012.

30. Trade and other payables

$ million	2012	2011
Payables under social obligations	**168**	181
Salaries and related payables	**90**	71
Trade payables	**108**	69
Mineral extraction tax payable	**71**	66
Other taxes payable	**56**	54
Interest payable	**63**	25
Payments received in advance	**32**	20
Amounts payable to related parties	**1**	1
Other payables and accrued expenses	**33**	12
	622	499

31. Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

$ million	2012	2011
(Loss)/profit before taxation from continuing operations	**(2,204)**	1,623
Profit/(loss) before taxation from discontinued operations	**26**	(431)
Interest income	**(17)**	(8)
Interest expense	**84**	51
Share-based payments	**6**	4
Depreciation and depletion	**269**	233
Amortisation	**7**	3
Share of profits from joint venture	**(126)**	(100)
Share of losses/(profits) from associate	**258**	(466)
Impairment losses	**2,443**	462
Unrealised foreign exchange loss/(gain)	**6**	(3)
Loss on disposal of subsidiary	**8**	–
Loss on disposal of property, plant and equipment	**2**	–
Operating cash flows before changes in working capital and provisions	**762**	1,368
Increase in non-current VAT receivable	**(69)**	–
Increase in inventories	**(40)**	(67)
Increase in prepayments and other current assets	**(177)**	(77)
Decrease in trade and other receivables	**52**	78
Increase in employee benefits	**168**	154
(Decrease)/increase in provisions	**(35)**	20
Increase in trade and other payables	**171**	62
Cash flows from operations before interest, income taxes and dividends from associate and joint venture	**832**	1,538

Non-cash transactions

There were the following non-cash transactions:

- as stated in note 4(a)(v) the Group capitalised depreciation of $12 million (2011: $9 million) for property, plant and equipment and mining assets;
- the Group reassessed $5 million (2011: $6 million released) relating to provisions for contractual reimbursements payable to the Government for geological information and social commitments with a corresponding increase in intangible assets; and
- the reassessment of the site restoration and clean up provisions during the year has resulted in the capitalisation of $9 million (2011: $4 million) to property, plant and equipment, with a corresponding increase in the site restoration and clean up provisions.

32. Movement in net (debt)/liquid funds

$ million	At 1 January 2012	**Cash flow**	**Attributable to discontinued operations**	**Other movements[1]**	**At 31 December 2012**
Cash and cash equivalents	1,102	**140**	**5**	**(1)**	**1,246**
Current investments	810	**(282)**	**–**	**(13)**	**515**
Borrowings	(1,893)	**(569)**	**1**	**(7)**	**(2,468)**
Net (debt)/liquid funds	19	**(711)**	**6**	**(21)**	**(707)**

$ million	At 1 January 2011	Cash flow	Attributable to discontinued operations	Other movements[1]	At 31 December 2011
Cash and cash equivalents	1,113	(20)	4	5	1,102
Current investments	356	454	–	–	810
Borrowings	(1,819)	3	(70)	(7)	(1,893)
Net liquid funds/(debt)	(350)	437	(66)	(2)	19

[1] Other movements comprise net foreign exchange movements, non-cash amortisation of fees on borrowings and other non-cash reconciling items. For the year ended 31 December 2012, the $13 million movement in current investments relates to the investments disposed when the captive insurance company in Kazakhstan was sold in early 2012 (see note 36(a)).

33. Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2012 represents continuing operations only.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close cooperation with the Group's business divisions under oversight of a Treasury Committee, which is chaired by the Chief Financial Officer. The responsibilities of the Treasury Committee include the monitoring of financial risks, management of the Group's cash resources, debt funding programmes and capital structure, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury Policy has been approved by the Board and is periodically updated to reflect developments in the financial markets and the financial exposures facing the Group. The Treasury Policy covers specific areas of financial risk management, in particular, liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. The Group's Treasury Committee and the Group's Internal Audit department monitor compliance with the Treasury Policy on a regular basis.

The Group's Treasury department prepares monthly treasury reports for senior management which monitor all major financial exposures and treasury activities undertaken by the Group. In addition, a treasury report is prepared for each Board meeting which includes a summary of the credit markets and their impact on the implementation of the Group's strategy, progress on the Group's financing initiatives and the significant financial exposures faced by the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents, current investments and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are controlled and managed centrally by the Group's Treasury department. Liquidity retained within Kazakhstan is only held for working capital purposes.

The Group's accounting policies with regard to financial instruments are detailed in note 3.

(a) Derivatives, financial instruments and risk management

The Group periodically uses derivative financial instruments to manage certain exposures to fluctuations in commodity prices, interest rates and exchange rates. The Group's philosophy is generally not to hedge its core revenue streams. In periods of significant market volatility or uncertainty, the Group may use derivative instruments as a means of reducing volatility and any negative impact on its operating cash flows. Strict limits on the size and type of any derivative hedge transaction are laid down by the Board and subject to strict internal controls. The Group does not hold any speculative financial instruments.

MKM uses natural hedging arising on back-to-back purchase and supply contracts to manage, to the fullest extent possible, its economic exposure to changes in the price of copper. In the event of any timing mismatch on the purchase and supply contracts, MKM uses commodity futures to manage its short-term exposure to changes in the price of copper. All commodity hedge contracts are for short-term duration (less than 12 months).

(b) Categories of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities by categories are as follows:

$ million	Notes	2012	2011
Loans and receivables[1]	20, 23, 24, 25	**1,892**	2,110
Available for sale assets[2]	20	**16**	2
Financial liabilities measured at amortised cost[3]	27, 29, 30	**(2,971)**	(2,289)

1 Loans and receivables comprise long-term deposits within other non-current investments (see note 20), trade and other receivables, current investments and cash and cash equivalents.

2 Available for sale assets comprise unlisted investments within other non-current investments (see note 20).

3 Financial liabilities measured at amortised cost comprise borrowings, provision for cash payments (payments for licences) and trade and other payables (excluding payments received in advance, other taxes payable and mineral extraction tax payable that are not regarded as financial instruments).

(c) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating company in currencies other than that company's functional currency. The functional currency of Kazakhmys Mining (production entities) and Kazakhmys Power is the Kazakhstan tenge, with Kazakhmys Services Ltd having a UK sterling functional currency, the Bozymchak project in Kyrgyzstan having a Kyrgyz Som functional currency and the Company, the Group's financing and holding companies and also the sales entity of Kazakhmys Mining (Kazakhmys Sales Ltd) having a US dollar functional currency. The currencies giving rise to this foreign currency risk are primarily the US dollar based revenues and certain costs, bank deposits and trade receivables of Kazakhmys LLC and certain intercompany funding balances that exist within the Group.

Where possible, the Group attempts to conduct its business, maintains its monetary assets and seeks to source corporate debt capital in US dollars so as to minimise its exposure to other currencies. The Group retains surplus cash balances in US dollars for capital expenditure, acquisitions and returns to shareholders. Working capital balances are maintained in a mix of US dollars and local currencies depending on short-term requirements of the business. Whilst there is a strong correlation between many mining input costs and the US dollar, a significant portion of the mining business' operating costs are denominated in local currencies, particularly the Kazakhstan tenge. Rates of exchange for these currencies relative to the US dollar could fluctuate significantly and may materially impact the profitability of the underlying operations and the net assets of the Group.

The Group generally does not enter into hedging positions in respect of its exposure to foreign currency risk. From time to time, acquisitions and capital investments may expose the Group to movements in other currencies and the Group will consider hedging such exposures on a case by case basis.

During 2011, the Group entered into a series of forward foreign exchange transactions to purchase KZT against the USD with a value of $40 million per month from April through to December 2011. The forward transactions were executed at rates averaging between 144.65 KZT/USD and 145.44 KZT/USD on a monthly basis. The purpose of the forward contracts was to hedge the impact on KZT denominated operating costs of the possible appreciation of the tenge against the US dollar. The swaps were terminated during 2011 and no positions remain outstanding in respect of 2012 or future years.

(i) Foreign currency exposure by company profile

The analysis in the table below of the net monetary assets and liabilities (including intercompany amounts) indicates the Group's exposure to currencies other than the functional currency of a company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2012 and 2011 these exposures were as follows:

$ million	US dollar	UK sterling	Euro	KZT	Other
2012					
Company	**n/a**	**(3)**	**–**	**–**	**–**
Kazakhmys LLC	**186**	**–**	**(22)**	**n/a**	**6**
Other trading companies	**(190)**	**–**	**–**	**n/a**	**(1)**
Non-trading or holding companies	**88**	**2**	**24**	**798**	**–**
	84	**(1)**	**2**	**798**	**5**

$ million	US dollar	UK sterling	Euro	KZT	Other
2011					
Company	n/a	(6)	–	–	–
Kazakhmys LLC	301	–	(1)	n/a	(2)
Other trading companies	5	–	–	n/a	(2)
Non-trading or holding companies	61	9	9	281	–
	367	3	8	281	(4)

33. Financial risk management continued

(ii) Foreign currency exposure by balance sheet account profile

The Group's exposure to foreign currency risk based on gross amounts is shown below:

$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2012						
Trade and other receivables	**271**	**–**	**1**	**1,581**	**1**	**1,854**
Current investments	**38**	**–**	**–**	**–**	**–**	**38**
Cash and cash equivalents	**50**	**2**	**24**	**10**	**7**	**93**
Provisions for cash payments	**(38)**	**–**	**–**	**–**	**–**	**(38)**
Borrowings	**(187)**	**–**	**–**	**(736)**	**–**	**(923)**
Trade and other payables	**(50)**	**(3)**	**(23)**	**(57)**	**(3)**	**(136)**
	84	**(1)**	**2**	**798**	**5**	**888**

$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2011						
Trade and other receivables	355	–	–	294	–	649
Current investments	20	–	–	–	–	20
Cash and cash equivalents	161	9	10	3	1	184
Provisions for cash payments	(35)	–	–	–	–	(35)
Borrowings	(120)	–	–	–	–	(120)
Trade and other payables	(14)	(6)	(2)	(16)	(5)	(43)
	367	3	8	281	(4)	655

(iii) Foreign currency sensitivity analysis

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2012. This sensitivity does not represent the income statement impact that would be expected from a movement in exchange rates over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% strengthening of the US dollar against the following currencies at 31 December would have increased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011:

	Impact on profit	
$ million	**2012**	2011
KZT	**(80)**	3
Euro	**–**	1
UK sterling	**–**	–

A 10% weakening of the US dollar against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Commodity price risk

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

Management closely monitors the impact of fluctuations in commodity prices on the business and uses conservative pricing assumptions and sensitivity analysis for its forecasting and investment appraisals.

The Power business positions the Group as a significant net generator in the Kazakhstan power market. The Kazakh power market has a predominance of large industrial electricity users focused on the natural resource sector, and consequently, electricity demand tends to broadly follow the commodity cycle. The Group sells its power to a mix of wholesale and industrial customers through directly negotiated bilateral contracts. In April 2009, to encourage investment in the power sector, the Government introduced a framework to raise tariff ceilings for domestic electricity sales for the years 2009 to 2015. The ceiling prices will be set by the Ministry of Industry and New Technologies on an annual basis, and are subject to the generator meeting capital investment commitments.

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2012. This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% increase/(decrease) in commodity prices would have no impact on profit after tax (2011: $nil). This analysis assumes that all other variables, in particular costs, remain constant and was performed on the same basis as 2011.

(e) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's interest rate management policy is generally to borrow and invest at floating rates of interest. In some circumstances, an element of fixed rate funding may be considered appropriate. A limited amount of fixed rate hedging using interest rate swaps may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical levels. The Group had no outstanding interest rate swaps as at 31 December 2012 and 31 December 2011.

At 31 December 2012 and 2011 all borrowings were at floating rates. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

				At 31 December 2012
$ million	**Floating rate**	**Fixed rate**	**Non-interest bearing**	**Total**
Financial assets				
Non-current investments	**–**	**9**	**16**	**25**
Trade and other receivables	**–**	**–**	**122**	**122**
Current investments	**–**	**515**	**–**	**515**
Cash and cash equivalents	**461**	**715**	**70**	**1,246**
Total financial assets	**461**	**1,239**	**208**	**1,908**
Financial liabilities				
Provisions for cash payments	**–**	**40**	**–**	**40**
Borrowings	**2,468**	**–**	**–**	**2,468**
Trade and other payables[1]	**–**	**–**	**463**	**463**
Total financial liabilities	**2,468**	**40**	**463**	**2,971**

				At 31 December 2011
$ million	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Non-current investments	–	8	2	10
Trade and other receivables	–	–	190	190
Current investments	–	810	–	810
Cash and cash equivalents	401	681	20	1,102
Total financial assets	401	1,499	212	2,112
Financial liabilities				
Provisions for cash payments	–	37	–	37
Borrowings	1,893	–	–	1,893
Trade and other payables[1]	–	–	359	359
Total financial liabilities	1,893	37	359	2,289

[1] Trade and other payables exclude payments received in advance, other taxes payable and mineral extraction tax payable that are not regarded as financial instruments.

33. Financial risk management continued

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

In accordance with IFRS 7, the impact of interest rates has been determined based on the balances of financial assets and liabilities at 31 December 2012. This sensitivity does not represent the income statement impact that would be expected from a movement in interest rates or outstanding borrowings over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. The effect on profit after tax of a 1% movement in US$ LIBOR rates, based on the year-end net debt position and with all other variables held constant, is estimated to be $15 million (2011: $9 million).

(f) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets and commitments due from third parties. The Group has adopted policies and procedures to control and monitor the distribution of these exposures to minimise the risk of loss in the event of non-performance by counterparties. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Credit risk relating to trade receivables

Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited in respect of trade receivables. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

Customer credit risk is managed by each division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all major customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an on-going basis, and receivables that are neither past due nor impaired are considered of good credit quality.

Letters of credit are obtained where customer credit quality is not considered strong enough for open credit.

There were no material impairments of trade receivables during the year ended 31 December 2012 or 2011. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

Within Kazakhmys Mining, cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are made under letters of credit which are obtained prior to delivery and transfer of title of the goods.

Payment from European and Chinese customers is subject to provisional pricing and then final pricing adjustments. Kazakhmys Mining is therefore exposed to the residual final pricing adjustment for each sales transaction although such amounts are not considered material in the context of the Group's overall revenues.

Kazakhmys Mining also provides certain social services to municipal authorities in the communities in which it operates as part of its contractual obligations under its subsoil licences. For most receivable balances due from municipal authorities, full provision is recognised in light of past payment history.

Kazakhmys Power receives cash upfront or has short payment terms depending on the nature of the customer.

As at 31 December 2012, 10 (2011: 10) customers accounted for 56% (2011: 87%) of the trade and other receivables balance of Kazakhmys Mining. By 20 March 2013, 99.85% (22 March 2012: 98%) of year-end balances due from these customers had been received in full.

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

$ million	**2012**	2011
Europe	**8**	24
China	**68**	121
Kazakhstan	**43**	34
Other	**3**	11
	122	190

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

$ million	2012 Gross	2012 Impairment	2011 Gross	2011 Impairment
Not past due	**109**	**–**	178	–
Past due 0-90 days	**7**	**–**	10	(2)
Past due 91-180 days	**4**	**–**	2	(1)
Past due 181-270 days	**8**	**(6)**	4	(1)
More than 270 days	**50**	**(50)**	48	(48)
	178	**(56)**	242	(52)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

$ million	2012	2011
At 1 January	**52**	49
Charged to income statement	**4**	6
Written off	**–**	(3)
At 31 December	**56**	52

Credit risk related to financial instruments and cash deposits

Credit risk relating to the Group's other financial assets, comprising principally cash and cash equivalents, current investments and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's Treasury Committee in accordance with a Board approved Treasury Policy. The Group's cash management policies emphasise security and liquidity ahead of investment return. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and within credit limits assigned to each counterparty. Exposures are measured against maximum credit limits assigned to each approved counterparty to ensure credit risk is effectively managed. The limits are set to minimise the concentration of risks and therefore mitigate any financial loss through potential counterparty failure.

In order to manage counterparty and liquidity risk, surplus funds within the Group are held predominantly in the UK and funds remaining in Kazakhstan are utilised mainly for working capital purposes. The Group must maintain a level of cash and deposits in Kazakhstan with local branches of international financial institutions and well established local Kazakhstan banks. The surplus funds in the UK are held primarily with major European and US financial institutions with minimum ratings of Standard & Poor's 'A-' and Moody's 'A3' and 'AAA' rated liquidity funds. These limits are reviewed on a regular basis to take account of developments in financial markets and updated accordingly.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

$ million	2012	2011
Non-current investments	**25**	10
Trade and other receivables	**122**	190
Current investments	**515**	810
Cash and cash equivalents	**1,246**	1,102
	1,908	2,112

(g) Liquidity risk

The Group's objective is to maintain a balance between availability of funding and maximising investment return on its liquid resources through the use of liquid cash investments and debt facilities of varying maturities. Management regularly reviews the funding requirements of the Group in selecting appropriate maturities for its liquid cash investments.

The Group maintains back-up liquidity for debt maturing within 12 months by way of committed revolving credit facilities totalling $300 million, the undrawn balance under the pre-export finance facility and by maintaining cash on the balance sheet (see note 27).

The Group's policy is to centralise debt and surplus cash balances to the maximum extent possible.

33. Financial risk management continued

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2012						
Provisions for cash payments[1]	**–**	**(1)**	**(4)**	**(32)**	**(26)**	**(63)**
Borrowings[2]	**–**	**(33)**	**(204)**	**(1,159)**	**(2,019)**	**(3,415)**
Trade and other payables[3]	**–**	**(463)**	**–**	**–**	**–**	**(463)**
	–	**(497)**	**(208)**	**(1,191)**	**(2,045)**	**(3,941)**
Non-current investments	**–**	**–**	**–**	**16**	**9**	**25**
Trade and other receivables	**–**	**122**	**–**	**–**	**–**	**122**
Current investments	**–**	**–**	**515**	**–**	**–**	**515**
Cash and cash equivalents	**139**	**1,107**	**–**	**–**	**–**	**1,246**
	139	**1,229**	**515**	**16**	**9**	**1,908**
	139	**732**	**307**	**(1,175)**	**(2,036)**	**(2,033)**

$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2011						
Provisions for cash payments[1]	–	–	(5)	(27)	(25)	(57)
Borrowings[2]	–	(152)	(452)	(901)	(788)	(2,293)
Trade and other payables[3]	(1)	(358)	–	–	–	(359)
	(1)	(510)	(457)	(928)	(813)	(2,709)
Non-current investments	–	–	–	2	8	10
Trade and other receivables	–	190	–	–	–	190
Current investments	–	–	810	–	–	810
Cash and cash equivalents	218	884	–	–	–	1,102
	218	1,074	810	2	8	2,112
	217	564	353	(926)	(805)	(597)

1 Provisions for cash payments are presented on an undiscounted gross basis.
2 Borrowings include expected future interest payments based on contracted margins and prevailing LIBOR rates at the balance sheet date.
3 Trade and other payables exclude payments received in advance, other taxes payable and mineral extraction tax payable that are not regarded as financial instruments.

(h) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

$ million	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Non-current investments	**25**	**25**	10	10
Trade and other receivables	**122**	**122**	190	190
Current investments	**515**	**515**	810	810
Cash and cash equivalents	**1,246**	**1,246**	1,102	1,102
Provisions for cash payments	**(40)**	**(40)**	(37)	(37)
Borrowings	**(2,468)**	**(2,456)**	(1,893)	(1,867)
Trade and other payables[1]	**(463)**	**(463)**	(359)	(359)
	(1,063)	**(1,051)**	(177)	(151)

1 Trade and other payables exclude payments received in advance, other taxes payable and mineral extraction tax payable that are not regarded as financial instruments.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, current investments, trade and other receivables, trade and other payables and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- provisions for cash payments are discounted back to their present value; and
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt of similar maturities.

(i) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the commodity cycle, to maximise returns to shareholders (either through dividends or share buy-backs) and benefits to other stakeholders and to maintain an optimal capital structure in order to reduce the Group's cost of capital.

At 31 December 2012, total capital employed (which comprises equity holders' funds, non-controlling interests and borrowings) of the Group amounted to $8,733 million, compared to $10,725 million at 31 December 2011. Total capital employed is the measure of capital that is used by the Directors in managing capital.

At 31 December 2012, the Group is in a net debt position from continuing operations of $707 million (2011: net funds of $19 million).

The Group does not have a target debt/equity ratio, but has determined a maximum debt capacity based on a ratio of long-term 'normalised' EBITDA which the Board believes establishes a sustainable level of gearing through the commodity cycle. This ratio is reviewed in conjunction with market conditions and prevailing commodity prices in order to ensure an efficient capital structure that is balanced against the risks of carrying excessive leverage. The Group manages net debt to ensure that it does not exceed two times 'normalised' EBITDA through the commodity cycle, where 'normalised' EBITDA excludes special items and equity accounted earnings from ENRC and Ekibastuz GRES-1. Included within the debt facilities are financial covenants related to maximum borrowing levels of the Group (determined by reference to net debt to EBITDA and debt to equity ratios), minimum tangible net worth of individual Group entities and consolidated gross assets to gross liabilities ratios, for which compliance certificates are produced. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. There are no covenants under negotiation at present.

34. Commitments and contingencies

(a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group. As of 31 December 2012 and 2011, the Group was not involved in any significant legal proceedings, including arbitration, which may crystallise a financial loss for the Group.

(b) Kazakhstan taxation contingencies

(i) Inherent uncertainties in interpreting tax legislation

The Group is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. The Directors' interpretation of tax legislation as applied to the transactions and activities of the Group may not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines which could have a material adverse effect on the Group's financial performance or position.

(ii) Kazakhmys Mining – tax audits

During 2010 and 2011, a tax audit for the years 2006 to 2008 was undertaken at Kazakhmys LLC whose scope included corporate income tax, environmental taxes and other taxes charged to the income statement. The tax audit was completed and a final assessment issued in October 2011, which resulted in a claim against Kazakhmys LLC in excess of the amounts previously paid. The Directors have recognised a provision for the amounts that represent the Directors' best estimate of the probable cash payments that will be required to settle these claims. The risk exists that the ultimate settlement will exceed the Directors' estimation. The tax computations for the years ended 31 December 2009, 2010 and 2011 remain open for inspection during a future tax audit. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

(iii) Kazakhmys Mining – transfer pricing

In June 2010, amendments to Kazakhstan's transfer pricing legislation were passed into law and were made largely retrospective from 1 January 2009. The new legislation clarified certain areas of interpretation, including the use of LME and LBMA prices as the basis of market prices, quotation periods to be used for the sale and purchase of traded commodities and the acceptability of discounts with reference to LME/LBMA prices when transacting in traded commodities. Notwithstanding these amendments, the Directors have recognised a provision for the amounts that represent the Directors' best estimate of the probable cash payments that will be required to settle any residual transfer pricing exposures based on the Directors' interpretation of the new transfer pricing legislation (including the impact of the amendments passed into law in June 2010) and the prevailing status of discussions with the tax authorities. The risk remains that the tax authorities may take a different position with regards to the interpretation of the new transfer pricing legislation, and amendments thereof, and the outcome of discussions with the Kazakhstan tax authorities may be materially different from the Directors' expectations.

34. Commitments and contingencies continued

(iv) Kazakhmys Mining – excess profits tax

New tax legislation came into force in Kazakhstan on 1 January 2009 which removed the tax stabilisation of subsoil use contracts and changed the excess profits tax methodology. Based on production and material flows within Kazakhmys LLC for the periods subsequent to 31 December 2008, the Directors' interpretation of the new tax legislation is that excess profits tax should no longer be levied on Kazakhmys LLC's operations after 1 January 2009. The Directors' position is supported by discussions and correspondence with the Government authorities. However, at 31 December 2012, the risk remained that the tax authorities may take a different position with regard to the interpretation of the new legislation and seek to impose excess profits tax on Kazakhmys LLC's operations for the years subsequent to 2008.

In October 2011, the Supreme Court of Kazakhstan issued a ruling that Kazakhmys LLC should not have been liable for excess profits tax in the periods up to and including 2008. Following the Supreme Court's ruling, Kazakhmys LLC lodged a claim with the Ministry of Finance to seek reimbursement of past EPT payments amounting to $108 million for the periods up to and including 2008. In the second half of 2012, the Ministry of Finance partially accepted Kazakhmys LLC's position and $60 million has been set-off against the income tax and mineral extraction tax liabilities for the year ended 31 December 2012. The remaining $48 million has been challenged by the tax authorities who believe that this amount relates to periods beyond the Kazakhstan statute of limitations. Kazakhmys LLC has taken legal action against the tax authorities for the refund of these amounts. In addition, Kazakhmys LLC believe that the applicable sections of the legislation dealing with the statute of limitations relates to valid tax payments and as these past EPT payments have already been ruled as invalid as a result of the Supreme Court ruling, their refund is therefore not restricted by the statute of limitations.

The reimbursement of $60 million has reduced the income tax and mineral extraction tax liabilities for the year ended 31 December 2012, and has been recognised as a refund of past EPT in the consolidated income statement as a special item. However, notwithstanding the previous ruling of the Supreme Court and the merits of Kazakhmys LLC's case against the Ministry of Finance, in light of the ongoing legal actions being taken by Kazakhmys LLC against the tax authorities, the Directors believe that sufficient uncertainty still remains over the recoverability of the remaining $48 million such that an asset for this amount has not been recognised in the consolidated financial statements as at 31 December 2012.

(v) Period for additional tax assessments

The tax authorities in Kazakhstan are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of excess profits tax, they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(vi) Possible additional tax liabilities

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Kazakhstan and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practical for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(c) Environmental contingencies

Environmental regulations in Kazakhstan are continually evolving and new emissions legislation is expected to be introduced in the near future. The outcome of environmental regulations under proposal or any future environmental legislation cannot be reliably estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements, however, recognise that the environmental regulators in Kazakhstan may take a differing position with regard to the interpretation of environmental legislation. The resulting effect is that additional environmental liabilities may arise, however, due to the range of uncertainties, it is not practical for the Directors to estimate any further potential exposures.

The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 29), is based upon the estimation of the Group's specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

(d) Use of subsoil and exploration rights

In Kazakhstan, all subsoil reserves belong to the State, with the Ministry of Industry and New Technologies (the 'Ministry') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations. The current subsoil rights will expire at varying dates up to 2062.

(e) Other commitments

The table below sets out the Group's expenditure commitments in property, plant and equipment as at 31 December 2012 and 2011:

$ million	**2012**	2011
Property, plant and equipment	**1,208**	148

The Group has capital expenditure commitments for the purchase of property, plant and equipment as well as commitments under its mining subsoil agreements. Committed expenditure under the subsoil agreements typically relates to investments in community-related projects, and includes investments in social sphere assets, infrastructure and public utilities.

(f) Operating lease commitments

The operating lease expense for the year was $4 million (2011: $4 million). At 31 December 2012 and 2011, the Group had the following total commitments under non-cancellable operating leases:

$ million	2012	2011
Within one year	**4**	4
After one year but not more than five years	**17**	22
More than five years	**40**	57
	61	83

35. Related party disclosures

(a) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period:

$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Companies under trust management[1]				
2012	**10**	**9**	**58**	**–**
2011	13	7	52	–
Other[1]				
2012	**2**	**23**	**13**	**1**
2011	2	25	10	1

[1] A provision of $56 million (2011: $53 million) has been set against the amounts owed by related parties. The bad debt expense in relation to related parties was $3 million for the year (2011: $6 million).

(i) Government

Share ownership in the Company

On 24 July 2008, the Company issued 80,286,050 ordinary shares to the State Property and Privatisation Committee of the Government, thereby making the Government a 15.0% shareholder of the Company and a related party with effect from this date.

On 4 October 2010, the Group's Chairman, Vladimir Kim, sold 58,876,793 ordinary shares, approximately 11.0% of Kazakhmys' shares in issue, to Samruk-Kazyna. As a result of the transaction, the Government's interest in the Group increased to 139,162,843 ordinary shares, representing approximately 26.0% of the shares in issue. The Government's interest is held via The State Property & Privatisation Committee's existing 15.0% holding and the 11.0% shareholding of Samruk-Kazyna.

Following the purchase of 11,701,830 of the Company's shares under the share buy-back programme which completed in May 2012, the Government's percentage of the total voting rights held has increased to 26.57% as at 31 December 2012.

China Development Bank ('CDB') and Samruk-Kazyna financing line

As explained in note 27, the Group secured a $2.7 billion financing line with Samruk-Kazyna, a wholly-owned subsidiary of the Government of Kazakhstan, and the CDB. The terms and conditions of the financing line, including a guarantee issued by the Group over the debt obligations of Samruk-Kazyna to the CDB under the financing line, are considered to be on an arm's length basis.

Other transactions

Throughout the normal course of business, the Group conducts transactions with entities controlled by the Government. The principal activities relate to the payment of electricity transmission fees, use of railway infrastructure and payments to tax authorities. In addition, the Group also constructs or pays for the construction of community assets and projects which may be transferred to the relevant Government department as part of the Group's social programme in Kazakhstan. Transactions between the Group and Government departments and agencies are considered to be related party transactions. Disclosure of these routine transactions is not made where all of the following criteria are met:

- they were done in the ordinary course of business of the Government department and/or company;
- there is no choice of suppliers; and
- they have terms and conditions (including prices, privileges, credit terms, regulations etc) that are consistently applied to all entities, public or private.

The Group did not have any material or significant non-arm's length or privileged transactions with entities controlled by the Government.

Dividend payment

The Government's share of the dividend paid by the Company in 2012 was $32 million (2011: $34 million).

35. Related party disclosures continued

(ii) ENRC

In 2012 the Group received dividends of $59 million from ENRC, the associated undertaking (2011: $113 million) in which the Group has a 26.0% interest.

(iii) Ekibastuz GRES-1

In 2012 the Group received dividends of $28 million from Ekibastuz GRES-1, the joint venture (2011: $nil) in which the Group has a 50.0% interest.

(iv) Companies under trust management agreements

The Group operates a number of companies under trust management agreements with local and state authorities. The activities include heating distribution systems, road maintenance and aviation services. The purpose of these agreements is to provide public and social services without any material financial benefit for the Group.

(v) Other

Transactions with other companies primarily relate to the provision of goods and services, on an arm's length basis, with companies whose boards or shareholders include members of senior management from the Group's subsidiaries.

(b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

36. Disposal of subsidiaries

Year ended 31 December 2012

(a) Captive insurance company

In early 2012, the Group disposed of its captive insurance company in Kazakhstan, included within Kazakhmys Mining, with net assets of $11 million, for proceeds of $3 million which resulted in the recognition of a loss of $8 million on disposal.

Year ended 31 December 2011

(b) Kazakhmys Petroleum

On 23 December 2011, the Group completed the disposal of Kazakhmys Petroleum, with net assets of $119 million, for a total consideration of $119 million. Together with the recycling of the foreign currency translation reserve of $24 million, the loss on disposal amounted to $24 million. In 2012, the negotiations over the completion adjustment in respect of the disposal of Kazakhmys Petroleum were concluded. As a result of these negotiations, the completion adjustment has been revised downwards resulting in the reduction of the consideration receivable by $13 million, bringing the total loss recognised on the disposal of Kazakhmys Petroleum to $37 million. The results of the prior period ended 23 December 2011 of Kazakhmys Petroleum and the impact of the reduced completion adjustment are included within the profit/(loss) from discontinued operations (see note 37(b)).

(c) Maikuben West coal mine

On 17 May 2011, the Group completed the disposal of the Maikuben West coal mine, an entity within Kazakhmys Power, for proceeds of $3 million, thereby recognising a loss of $20 million on disposal. The net assets disposed amounted to $14 million. The recognised loss represents the excess of the net assets over the proceeds received and the recycling of the foreign currency translation reserve on disposal of $9 million. The results of the prior period ended 17 May 2011 of the Maikuben West coal mine are included within the profit/(loss) from discontinued operations (see note 37(c)).

37. Discontinued operations and assets held-for-sale

Discontinued operations consist of MKM, Kazakhmys Petroleum (for the period up to 23 December 2011) and the Maikuben West coal mine (for the period up to 17 May 2011) within Kazakhmys Power.

(a) MKM

During 2009 the Directors decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. The business was classified as an asset held for sale at 31 December 2009, and correspondingly as a discontinued operation in the consolidated income statement for the 2009 financial year. This classification was made as the Group believed that a sale was highly probable to take place within 12 months from the date the business was first classified as held-for-sale. The sale of MKM has not completed within the envisaged 12 month period, as negotiations with potential acquirers have taken longer than was originally anticipated, principally due to challenges faced by potential interested parties in raising the finance necessary to complete the transaction. The failure of the potential acquirers to secure the level of funding required to meet MKM's working capital requirements is a factor that was neither anticipated nor within management's control. In June 2012, management appointed an investment bank to conduct a structured tender process for the sale of the MKM business. The sales process managed by the investment bank is being run in conjunction with ongoing discussions held by management with potential suitors who have expressed an interest in acquiring MKM, some of whom have undertaken due diligence on the business.

The Directors consider that MKM still meets the criteria to be classified as held for sale at the balance sheet date for the following reasons:

- MKM is available for immediate sale and can be sold to a potential buyer in its current condition;
- the Group's strategic objective of disposing of MKM remains the same and the Directors remain committed to the sales process;
- an active marketing programme continues with the engagement of an investment bank to enhance the sales process in conjunction with the ongoing discussions being held by management with potential suitors;
- discussions are being held with a number of interested parties for the purchase of the business at a price consistent with previous expectations, some of which have engaged advisors and undertaken due diligence on MKM; and
- a disposal within 12 months is considered to be highly probable.

(b) Kazakhmys Petroleum

Following the decision taken to dispose of Kazakhmys Petroleum in June 2011, the sale of the business completed on 23 December 2011. Consequently, the results of discontinued operations for the year ended 31 December 2011 include the results of Kazakhmys Petroleum until that date and the impact of the reduced completion adjustment for the year ended 31 December 2012 (see note 36(b)).

(c) Kazakhmys Power

The discontinued operation within Kazakhmys Power comprises the Maikuben West coal mine which was sold on 17 May 2011. Consequently, the results of discontinued operations for the year ended 31 December 2011 include the results of Maikuben West coal mine until that date (see note 36(c)).

(d) Financial results, balance sheet and cash flow information of discontinued operations

The results from discontinued operations for the year as shown in the consolidated income statement are shown below:

$ million	**2012**	2011
Revenues	**1,466**	1,690
Cost of sales	**(1,359)**	(1,583)
Operating costs	**(58)**	(74)
Impairment losses	**(1)**	–
Net finance costs	**(5)**	(11)
Impairment loss recognised on the remeasurement to fair value less costs to sell[1]	**(17)**	(453)
Profit/(loss) before tax from discontinued operations	**26**	(431)
Income taxes:		
Related to current year profit/(loss) before taxation (current and deferred taxes)	**(4)**	1
Related to the reversal of a provision recognised in previous years (current tax)	**9**	–
Related to remeasurement to fair value less costs to sell (deferred tax)	**2**	2
	33	(428)
Loss on disposal of subsidiaries[2,3]	**(13)**	(44)
Profit/(loss) for the year from discontinued operations	**20**	(472)
Analysed as:		
MKM	**33**	12
Kazakhmys Petroleum	**(13)**	(471)
Kazakhmys Power	**–**	(13)

1 At 31 December 2012, the carrying value of MKM has been written down to its fair value less costs to sell with the result that an impairment charge of $17 million has been recognised in the year. The positive financial performance of MKM resulted in an increase in its carrying value during the year, which exceeded its fair value less costs to sell as previously recorded. The carrying values of MKM and Kazakhmys Petroleum were written down to their fair values less costs to sell at 31 December 2011, with the result that impairment charges of $9 million and $444 million, respectively, were recognised in the year.

2 In the year ended 31 December 2012, negotiations over the completion adjustment in respect of Kazakhmys Petroleum were concluded. As a result of these negotiations, the completion adjustment has been revised downwards resulting in the reduction of the consideration receivable by $13 million.

3 The loss on disposal of subsidiaries in the year ended 31 December 2011 relates to the sale of Kazakhmys Petroleum (see note 36(b)) and the Maikuben West coal mine (see note 36(c)).

37. Discontinued operations and assets held-for-sale continued

As the Maikuben West coal mine and Kazakhmys Petroleum were sold prior to 31 December 2011, assets classified as held for sale and liabilities directly associated with those assets at 31 December 2012 and 31 December 2011 relate solely to MKM.

The balance sheets of the discontinued operation are shown below:

$ million	2012	2011
Assets		
Property, plant and equipment	**23**	14
Inventories	**107**	95
Trade and other receivables	**117**	114
Cash and cash equivalents	**4**	9
Assets classified as held for sale	**251**	232
Liabilities		
Borrowings	**(125)**	(121)
Employee benefits and provisions	**(6)**	(6)
Trade and other payables	**(25)**	(18)
Income taxes payable	**(2)**	(9)
Liabilities directly associated with assets classified as held for sale	**(158)**	(154)
Net assets directly associated with the disposal group	**93**	78
Intercompany dividend payable	**(13)**	–
Net assets directly associated with the disposal group including intercompany dividend payable	**80**	78

Net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

$ million	2012	2011
Operating activities	**23**	105
Investing activities	**(11)**	(51)
Financing activities	**(17)**	(82)
Net cash outflow	**(5)**	(28)

38. Share-based payment plans

The Company's share-based payment plans consist of a Long Term Incentive Plan (LTIP) and an Executive Share Option Plan (ESOP). The Group also has a smaller scheme, the Deferred Share Bonus Plan (DSBP), which at 31 December 2012 had 222,142 awards outstanding (2011: 110,758) with 42,735 being exercisable at the year end (2011: 28,130). The total expense for the year ended 31 December 2012 arising from these plans was $6 million (2011: $4 million).

These plans are discretionary benefits offered by the Company for the benefit of its employees. The main purpose is to increase the interest of the employees in Kazakhmys' long-term business goals and performance through share ownership. They represent incentives for employees' future performance and commitment to be aligned to the goals of the Group. The shares issued under these plans are dilutive ordinary shares. During the year the Company purchased nil shares (2011: 270,000) at a cost of $nil (2011: $5 million) through an Employee Benefit Trust. For any future awards, the Company may issue new shares rather than purchase the shares in the open market through the Employee Benefit Trust.

The fair value of the shares under the LTIP and the ESOP are estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share performance.

The following table lists the inputs to the Monte Carlo simulation model of the LTIP and ESOP:

	2012 Shares granted with a 38 month vesting period April 2012	2011 Shares granted with a 38 month vesting period April 2011	2010 Shares granted with a 3 year vesting period May 2010	2010 Shares granted with a 3 year vesting period April 2010
Number of awards	**632,995**	367,315	116,532	94,277
Fair value at grant date	**£5.08**	£9.89	£7.86	£11.15
Share price at grant date	**£8.87**	£14.14	£12.01	£15.80
Exercise price	**£nil**	£nil	£nil	£nil
Expected volatility	**57.5%**	77.5%	84.3%	66.1%
Expected weighted average life at 31 December	**2.4 years**	1.4 years	0.4 years	0.3 years

The award over shares is not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. On vesting of the award, the participants are entitled to cash equal to the value of dividends (excluding the dividend tax credit) that would have been paid on those shares between the grant date and the date of vesting. Therefore, expected dividend yield does not affect the valuation of the awards and has been set at zero to achieve this effect. Expected volatility is based on historic share price movements.

Details of these plans and the movements in the number of shares for the most significant share-based payment plans are detailed below:

(a) Long Term Incentive Plan

Under the LTIP, awards over shares are granted to senior management of the Group at nil cost. The vesting of the shares is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies, as well as a requirement for the recipients of awards to remain in employment with the Group over the vesting period.

The following table shows the movements in the number of shares during the year:

Number	**2012**	2011
Outstanding at 1 January	**915,351**	614,238
Granted on 6 April 2011 – 38 month vesting period	**–**	367,315
Granted on 4 April 2012 – 38 month vesting period	**632,995**	–
Exercised	**(58,002)**	–
Lapsed on 31 December	**(102,880)**	(66,202)
Outstanding at 31 December	**1,387,464**	915,351
Exercisable at 31 December	**176,345**	–

(b) Executive Share Option Plan

The ESOP is an HMRC approved discretionary company share option plan that provides for the grant of market value options up to a value of £30,000 to executive Directors and certain selected UK-based senior executives. The vesting of the options is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies, as well as a requirement for the recipients of options to remain in employment with the Company over the vesting period.

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

The following table shows the movements in the number of shares under option during the year:

Number	**2012**	2011
Outstanding at 1 January	**13,510**	11,388
Granted on 6 April 2011 – 38 month vesting period	**–**	2,122
Outstanding at 31 December	**13,510**	13,510
Exercisable at 31 December	**–**	–

39. Company financial statements

(a) Company balance sheet

$ million	Notes	2012	2011
Assets			
Non-current assets			
Investments	39(e)	**6,480**	6,369
Deferred tax asset		**1**	2
		6,481	6,371
Current assets			
Prepayments and other current assets		**2**	2
Income taxes reclaimable		**1**	16
Intercompany loan	39(f)	**646**	825
Trade and other receivables	39(g)	**14**	4
Cash and cash equivalents		**1**	1
		664	848
Total assets		**7,145**	7,219
Equity and liabilities			
Equity			
Share capital	26(a)	**200**	200
Share premium		**2,650**	2,650
Capital reserves	39(i)	**771**	769
Retained earnings		**3,449**	3,594
Total equity		**7,070**	7,213
Current liabilities			
Trade and other payables	39(j)	**4**	6
Intercompany payables	39(m)	**71**	–
Total liabilities		**75**	6
Total equity and liabilities		**7,145**	7,219

These financial statements were approved by the Board of Directors on 25 March 2013.

Signed on behalf of the Board of Directors

Oleg Novachuk
Chief Executive Officer

Matthew Hird
Chief Financial Officer

(b) Company statement of cash flows

$ million	Notes	2012	2011
Cash flows from operating activities			
Profit before taxation		**51**	524
Interest income		**(1)**	(2)
Share-based payments	38	**6**	4
Non-cash contribution to subsidiary for share-based payments	39(e)	**(9)**	–
Impairment loss	39(e)	**–**	63
Dividends received		**(100)**	(600)
Operating cash flows before changes in working capital		**(53)**	(11)
Decrease in prepayments and other current assets		**–**	1
Decrease in trade and other receivables		**23**	5
(Decrease)/increase in trade and other payables		**(2)**	1
Increase in intercompany payables		**71**	–
Cash flows from operations before interest, income taxes and dividends received		**39**	(4)
Income taxes paid		**(7)**	(4)
Dividends received		**100**	600
Net cash inflow from operating activities		**132**	592
Cash flows from investing activities			
Capital contributions into subsidiary undertakings	39(e)	**(2)**	(68)
Net cash flows used in investing activities		**(2)**	(68)
Cash flows from financing activities			
Purchase of own shares under the Group's share buy-back programme		**(88)**	(78)
Amounts repaid/(advances) under intercompany loans		**79**	(316)
Dividends paid by the Company	14	**(121)**	(129)
Net cash flows used in financing activities		**(130)**	(523)
Net increase in cash and cash equivalents	39(k)	**–**	1
Cash and cash equivalents at the beginning of year		**1**	–
Cash and cash equivalents at the end of year	39(k)	**1**	1

(c) Company statement of changes in equity

$ million	Notes	Share capital	Share premium	Capital reserves [1]	Retained earnings	Total equity
At 1 January 2011		200	2,648	774	3,265	6,887
Profit for the year		–	–	–	532	532
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	532	532
Acquisition of non-controlling interest in subsidiary	26(a)	–	2	–	–	2
Share-based payment	38	–	–	–	4	4
Own shares purchased by the employee benefit trust		–	–	(5)	–	(5)
Own shares acquired under the share buy-back programme		–	–	–	(78)	(78)
Dividends paid	14	–	–	–	(129)	(129)
At 31 December 2011		200	2,650	769	3,594	7,213
Profit for the year		**–**	**–**	**–**	**58**	**58**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**58**	**58**
Share-based payment	38	**–**	**–**	**–**	**6**	**6**
Employee share awards exercised		**–**	**–**	**2**	**–**	**2**
Own shares acquired under the share buy-back programme		**–**	**–**	**–**	**(88)**	**(88)**
Dividends paid	14	**–**	**–**	**–**	**(121)**	**(121)**
At 31 December 2012		**200**	**2,650**	**771**	**3,449**	**7,070**

[1] Refer to note 39(i) for an analysis of 'Capital reserves'.

(d) Company accounting policies

Basis of preparation

The Kazakhmys PLC parent company balance sheet, statement of cash flows and related notes have been prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006. The financial information has been prepared on a historical cost basis. The financial statements have been prepared on a going concern basis.

The functional currency of the Company and the presentational currency adopted is US dollars.

39. Company financial statements continued

Principal accounting policies

The principal accounting policies are consistent with those applied in the consolidated financial statements (refer to notes 2 and 3) except for the additional accounting policy relating to non-current investments set out below. There were no changes to the accounting policies during the year.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, following implementation of these standards, actual results may differ from those estimates.

Non-current investments

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

(e) Company non-current investments

$ million	2012	2011
Cost		
At 1 January	**7,462**	7,311
Additions	**111**	151
At 31 December	**7,573**	7,462
Provision for impairment		
At 1 January	**1,093**	1,030
Charged to the income statement	**–**	63
At 31 December	**1,093**	1,093
Net book value	**6,480**	6,369

(i) Kazakhmys LLC

The Company's investment in Kazakhmys LLC is held via an intermediate holding company.

During 2012, the Company issued 2,219 ordinary shares of 20 pence each and paid $2 million in consideration for the transfer of 7,160,730 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's indirect interest held in Kazakhmys LLC via an intermediate holding company increased from 99.88% at 31 December 2011 to 99.90% at 31 December 2012.

During 2011, the Company issued 177,623 ordinary shares of 20 pence each and paid $8 million in consideration for the transfer of 49,266,115 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's indirect interest held in Kazakhmys LLC via an intermediate holding company increased from 99.73% at 1 January 2011 to 99.88% at 31 December 2011.

(ii) ENRC

The Company, via an intermediate holding company, holds 334,824,860 shares in ENRC representing 26.0% of the issued share capital (2011: 334,824,860 shares).

(iii) Kazakhmys Services Limited

In 2012, an additional investment of $9 million relating to capital contributions made by the Company to Kazakhmys Services Limited was recognised in respect of the share awards issued by the Company on behalf of employees of Kazakhmys Services Limited.

At 31 December 2011, the Company waived the intercompany trade receivable due from Kazakhmys Services Limited in order to provide financial support to Kazakhmys Services Limited as a capital contribution. As a result, the outstanding amount of $141 million as at 31 December 2011 was capitalised to the cost of the Company's investment in Kazakhmys Services Limited. Following the capitalisation of this amount, an impairment review was performed which resulted in an impairment charge being recognised in the Company's income statement of $63 million to reduce the carrying amount of the investment in Kazakhmys Services Limited to its recoverable amount.

(iv) Kazakhmys Finance PLC

During the year, the Company waived $100 million of the intercompany loan receivable due from Kazakhmys Finance PLC in order to provide financial support to Kazakhmys Finance PLC as a capital contribution. As a result, $100 million was capitalised to the cost of the Company's investment in Kazakhmys Finance PLC.

(v) Other companies

The Company holds its interests in other subsidiaries in the Group either directly for United Kingdom registered subsidiaries or via intermediate holding companies for those businesses in Central Asia and Germany.

(f) Company intercompany loan

The intercompany loan receivable of $646 million is due from Kazakhmys Finance PLC (2011: $825 million), following the loan waiver discussed above, which has been advanced by the Company for general corporate purposes. This balance is repayable on demand and accrues interest at US$ LIBOR minus 10 bps. As at 31 December 2012, interest receivable of $3 million (2011: $2 million) had accrued on this loan balance and is included within intercompany receivables (note 39(g)).

(g) Company trade and other receivables

$ million	2012	2011
Intercompany receivables	3	2
Group tax relief receivables	11	2
	14	4

Group tax relief is due from Kazakhmys Sales Limited of $11 million (2011: $2 million) as all UK Group companies are considered part of a tax group for corporation tax purposes. The Company is in a loss-making position for tax purposes and therefore in a net receivable position.

(i) Company capital reserves

$ million	Capital reserve	Capital redemption reserve	Treasury shares[1]	Total
At 1 January 2011	779	6	(11)	774
Own shares purchased by the Employee Benefit Trust	–	–	(5)	(5)
At 31 December 2011	779	6	(16)	769
Own shares issued upon exercise of options	–	–	2	2
At 31 December 2012	**779**	**6**	**(14)**	**771**

[1] During the year, in accordance with the Company's policy on treating shares purchased in the Company by the Employee Benefit Trust as own shares within equity, the Company has created a new reserve for these shares. Consequently, the cost of these shares previously treated as a loan advanced to the Employee Benefit Trust has been reclassified to the treasury shares reserve within equity.

(i) Capital reserve

The capital reserve is a non-distributable reserve created when the shares issued pursuant to the share exchange agreements prior to the Company's listing were recorded at fair value. To the extent the Company receives dividends from Kazakhmys LLC's profits created in the period prior to the share exchange, the capital reserve is realised through a transfer to distributable retained earnings.

(ii) Capital redemption reserve

As a result of the share buy-back programme undertaken in 2008, transfers were made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

(iii) Treasury shares

The treasury shares reserve represents the cost of the Company's shares purchased by the Employee Benefit Trust to satisfy the share options awarded under the Company's share-based payment schemes.

(j) Company trade and other payables

$ million	2012	2011
Salaries and related payables	3	6
Other payables and accrued expenses	1	–
	4	6

(k) Company movement in net liquid funds

$ million	At 1 January 2012	Cash flow	At 31 December 2012
Cash and cash equivalents	1	–	1
Borrowings	–	–	–
Net liquid funds	1	–	1

$ million	At 1 January 2011	Cash flow	At 31 December 2011
Cash and cash equivalents	–	1	1
Borrowings	–	–	–
Net liquid funds	–	1	1

39. Company financial statements continued

(l) Company financial risk management

The Company, as a holding company, has limited exposure to foreign exchange, credit and interest rate risks and these are shown below. The Company has no exposure to commodity, liquidity or price risks.

(i) Foreign exchange risk

The Company has transactional currency exposures principally arising from transactions relating to corporate costs which are denominated in currencies other than the Company's functional currency being the US dollar. Corporate costs are primarily denominated in UK sterling. The Company generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

(ii) Credit risk

Credit risk for the Company relates to cash and cash equivalents. Balances within intercompany loans and trade and other receivables mostly relate to amounts owed by Group undertakings resulting in reduced credit risk for these balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

$ million	**2012**	2011
Intercompany loans	**646**	825
Trade and other receivables	**14**	4
Cash and cash equivalents	**1**	1
	661	830

The exposure to credit risk for intercompany loans and trade and other receivables at 31 December 2012 and 2011 by geographic areas was all European.

(iii) Interest rate risk

The Company has limited balances subject to interest rate risk. The exposure of the Company's financial assets and liabilities to interest rate risk is as follows:

	At 31 December 2012			
$ million	**Floating rate**	**Fixed rate**	**Non-interest bearing**	**Total**
Financial assets				
Intercompany loans	**646**	**–**	**–**	**646**
Trade and other receivables	**–**	**–**	**14**	**14**
Cash and cash equivalents	**1**	**–**	**–**	**1**
Total financial assets	**647**	**–**	**14**	**661**
Financial liabilities				
Trade and other payables	**–**	**–**	**(4)**	**(4)**
Intercompany payables	**–**	**–**	**(71)**	**(71)**
Total financial liabilities	**–**	**–**	**(75)**	**(75)**

	At 31 December 2011			
$ million	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Intercompany loans	825	–	–	825
Trade and other receivables	–	–	4	4
Cash and cash equivalents	1	–	–	1
Total financial assets	826	–	4	830
Financial liabilities				
Trade and other payables	–	–	(6)	(6)
Total financial liabilities	–	–	(6)	(6)

All the Company's interest bearing monetary assets are denominated in US dollars and have a maturity of less than one year.

(iv) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements:

$ million	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Intercompany loans	**646**	**646**	825	825
Trade and other receivables	**14**	**14**	4	4
Cash and cash equivalents	**1**	**1**	1	1
Trade and other payables	**(4)**	**(4)**	(6)	(6)
Intercompany payables	**(71)**	**(71)**	–	–
	586	**586**	824	824

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash and cash equivalents, trade and other receivables, trade and other payables and intercompany loans and payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

(v) Capital management

The over-riding objectives of the Company's capital management policy are to safeguard and support the business as a going concern through the commodity cycle, to maximise returns to shareholders (either through dividends or share buy-backs) and benefits to other stakeholders and to maintain an optimal capital structure in order to reduce the Company's cost of capital (see note 33(i)).

(m) Company related party disclosures

(i) Transactions with related parties

The total amount of transactions which have been entered into with related parties was interest received from Kazakhmys Finance PLC of $1 million (2011: $2 million). The amounts outstanding from subsidiary companies are provided in notes 39(f) and 39(g).

The intercompany payables amount of $71 million is due to Kazakhmys Services Limited for services provided on behalf of the Company during the year under a management service agreement. The balance is payable on demand and is interest free.

As explained in note 39(e), in 2011 the Company waived its right to receive repayment of the outstanding intercompany trade receivable balance of $141 million due from Kazakhmys Services Limited and in 2012 the Company waived its right to receive repayment of $100 million of the outstanding intercompany loan receivable due from Kazakhmys Finance PLC.

The Company received dividends of $100 million from Kazakhmys Sales Limited (2011: $100 million) and $nil from Kazakhmys Investments Limited (2011: $500 million) during the year.

An additional investment of $9 million relating to capital contributions was made to Kazakhmys Services Limited during 2012 (see note 39(e)).

The Government became a related party on 24 July 2008. Transactions involving the Government are explained in note 35.

(ii) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

39. Company financial statements continued

(n) Subsidiaries

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

	Principal activity	Operating division	Country of incorporation	**Equity interest at 31 December 2012 %**	Equity interest at 31 December 2011 %
Kazakhmys Corporation LLC	Copper mining and concentrating	Kazakhmys Mining	Kazakhstan	**99.9**[1]	99.9[1]
Kazakhmys Smelting LLC	Copper refining and smelting	Kazakhmys Mining	Kazakhstan	**100.0**[1]	–
Kazakhmys Aktogay LLP	Copper mine development	Kazakhmys Mining	Kazakhstan	**100.0**[1]	100.0[1]
Kazakhmys Bozshakol LLP	Copper mine development	Kazakhmys Mining	Kazakhstan	**100.0**[1]	100.0[1]
Kazakhmys Projects BV	Project development company	Kazakhmys Mining	Kazakhstan	**100.0**[1]	100.0[1]
Kazakhmys Energy LLP	Electricity generation	Kazakhmys Power	Kazakhstan	**100.0**[1]	–
Kazakhmys Sales Limited	Sales and logistics	Kazakhmys Mining	United Kingdom	**100.0**	100.0
Dank LLP	Gold mining and processing	Kazakhmys Mining	Kazakhstan	**100.0**[1]	100.0[1]
Andas Altyn LLP	Gold mining and processing	Kazakhmys Mining	Kazakhstan	**100.0**[1]	100.0[1]
Kazakhmys Gold Kyrgyzstan LLP	Copper/gold mine development	Kazakhmys Mining	Kyrgyzstan	**100.0**[1]	100.0[1]
Kazakhmys Finance PLC	Group financing	N/A	United Kingdom	**100.0**	100.0
Kazakhmys Services Limited	Management and services company	N/A	United Kingdom	**100.0**	100.0
Kazakhmys Investments Limited	Holding company	N/A	United Kingdom	**100.0**	100.0
MKM Mansfelder Kupfer und Messing GmbH[2]	Copper fabrication	MKM	Germany	**100.0**[1]	100.0[1]

1 Indirectly held by the Company.
2 Classified as held for sale (see note 37(a)).

(o) Guarantees

The Company is the guarantor for the following:

- as explained in note 27, the Company, together with Kazakhmys LLC and Kazakhmys Sales Limited, is a guarantor of the $1.0 billion pre-export finance debt facility signed in December 2012;
- as explained in note 27, the Company is the guarantor of the loan facilities signed between Kazakhmys Finance PLC and Samruk-Kazyna under the CDB/Samruk-Kazyna financing line. As at 31 December 2012, Kazakhmys Finance PLC had signed loan facilities amounting to $2.7 billion and had drawn down $2.5 billion under them;
- as explained in note 27, the Company is also party to a several but not joint guarantee to the CDB under the loan facilities between CDB and Samruk-Kazyna which is capped at $1.7 billion of principal plus 85% of any interest and other duly payable costs and expenses. A right of set-off exists under the loan facilities between Samruk-Kazyna and Kazakhmys Finance PLC in the event of any payment being made by the Company to the CDB under this guarantee;
- as explained in note 27, the Company is a guarantor of the $1.5 billion finance facility for the Aktogay project signed in December 2011 with the CDB; and
- the operating lease on the Company's head office in London.

40. Events after the balance sheet date

(a) Post year-end dividend

The Directors recommend a final ordinary dividend in respect of the year ended 31 December 2012 of 8.0 US cents per share. Subject to the approval of the shareholders at the Annual General Meeting to be held on 17 May 2013, this dividend shall be paid on 21 May 2013.

(b) Revolving credit facilities

On 8 March 2013, Kazakhmys Finance PLC signed an agreement to extend the $100 million revolving credit facility (see note 27(a)) for an additional two year term to March 2015.

Consolidated five year summary
Year ended 31 December 2012

$ million (unless otherwise stated)	**2012**	2011	2010	2009	2008
Results					
Revenues[1]	**3,353**	3,563	3,237	2,404	3,276
(Loss)/profit before finance items and taxation[1]	**(2,113)**	1,691	1,659	772	1,187
(Loss)/profit before taxation[1]	**(2,204)**	1,623	1,592	1,028	1,144
(Loss)/profit after taxation[1]	**(2,290)**	1,402	1,389	767	820
Profit/(loss) for the year from discontinued operations	**20**	(472)	61	(214)	90
(Loss)/profit attributable to equity shareholders	**(2,271)**	930	1,450	554	909
Assets employed					
Non-current assets	**6,699**	8,355	8,095	6,408	8,751
Current assets	**3,294**	3,376	2,900	3,555	1,903
Non-current liabilities	**(2,870)**	(1,648)	(1,484)	(1,376)	(2,206)
Current liabilities	**(858)**	(1,251)	(1,292)	(1,992)	(951)
Net assets	**6,265**	8,832	8,219	6,595	7,497
Financed by					
Equity	**6,259**	8,825	8,206	6,582	7,477
Minority interests	**6**	7	13	13	20
	6,265	8,832	8,219	6,595	7,497
Key statistics					
Segmental EBITDA (excluding special items)	**1,364**	1,959	1,932	1,211	1,627
Group EBITDA (excluding special items)	**1,912**	2,925	2,835	1,634	2,056
Underlying Profit	**492**	1,498	1,489	602	1,112
Free Cash Flow	**85**	824	718	579	715
EPS – basic and diluted ($)	**(4.33)**	1.75	2.71	1.04	1.85
EPS based on Underlying Profit ($)	**0.94**	2.80	2.79	1.13	2.27
Dividends per share (US cents)	**11.0**	28.0	22.0	–	41.4
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	**174**	114	89	72	116
Maintenance spend per tonne of own copper cathode ($/t)	**2,065**	1,237	1,075	644	1,038

[1] From continuing operations only.

1. Summary of significant production and sales figures

kt (unless otherwise stated)	2012	2011
Kazakhmys Mining		
Ore mined[1]	**37,507**	33,432
Copper content in ore mined (%)	**0.95**	1.01
Copper cathode equivalent production:		
From own concentrate	**292**	299
From purchased concentrate	**2**	2
Total copper cathode equivalent produced[2]	**294**	301
Total copper cathode equivalent sales	**282**	293
Zinc in concentrate production	**152**	140
Silver own production (koz)[3]	**12,643**	13,137
Gold bar own production (koz)	**116**	118
Gold doré production (koz)	**13**	33
Kazakhmys Power		
Electricity power generation sales (GWh)[4]	**19,930**	18,275

1 Excludes output from mines in the former Gold division: Central Mukur and Mizek.
2 Includes cathode converted into rod.
3 Includes production from mines in the former Gold division: Central Mukur and Mizek.
4 Includes the captive power stations and 100% of the net power generated by Ekibastuz GRES-1.

2. Kazakhmys Mining

(a) Metal mining[1]

	Ore mined		Copper		Zinc		Gold		Silver	
	2012 kt	2011 kt	**2012 %**	2011 %	**2012 %**	2011 %	**2012 g/t**	2011 g/t	**2012 g/t**	2011 g/t
Zhezkazgan Region										
North	**2,712**	2,107	**0.54**	0.69	**–**	–	**–**	–	**4.36**	5.91
South	**5,166**	5,268	**0.64**	0.57	**–**	–	**–**	–	**15.00**	12.82
Stepnoy	**3,217**	3,278	**0.62**	0.62	**–**	–	**–**	–	**9.97**	12.82
East	**3,722**	3,788	**0.56**	0.55	**–**	–	**–**	–	**8.68**	11.36
West	**2,845**	2,066	**0.54**	0.49	**–**	–	**–**	–	**12.65**	12.01
Annensky	**1,194**	2,671	**0.68**	0.58	**–**	–	**–**	–	**14.74**	14.47
Zhomart	**3,745**	3,712	**1.35**	1.44	**–**	–	**–**	–	**9.12**	8.18
Total Zhezkazgan Region	**22,601**	22,890	**0.72**	0.72	**–**	–	**–**	–	**10.68**	10.73
Central Region										
Konyrat	**2,784**	–	**0.29**	–	**–**	–	**–**	–	**1.98**	–
Shatyrkul	**648**	573	**2.38**	2.21	**–**	–	**0.38**	0.38	**2.28**	2.11
Sayak I and Sayak III	**1,719**	1,605	**0.77**	0.71	**–**	–	**0.21**	0.22	**4.70**	4.60
Abyz	**500**	491	**1.07**	1.33	**2.39**	2.69	**3.41**	3.23	**31.87**	34.57
Akbastau	**1,886**	501	**1.52**	1.74	**0.92**	0.66	**0.63**	0.72	**16.31**	18.19
Nurkazgan	**2,662**	2,686	**0.58**	0.68	**–**	–	**0.22**	0.26	**1.80**	1.71
Total Central Region	**10,199**	5,856	**0.84**	0.99	**1.23**	1.67	**0.55**	0.55	**6.53**	6.70
East Region										
Orlovsky	**1,580**	1,566	**3.04**	3.66	**4.29**	3.83	**1.09**	1.03	**55.96**	53.44
Belousovsky	**–**	22	**–**	1.02	**–**	0.32	**–**	0.26	**–**	16.66
Irtyshsky	**610**	578	**1.39**	1.33	**2.91**	2.87	**0.26**	0.33	**50.82**	48.64
Nikolayevsky	**208**	581	**0.83**	0.86	**1.65**	3.63	**0.36**	0.43	**20.78**	31.65
Yubileyno-Snegirikhinsky	**769**	656	**2.82**	2.98	**2.50**	2.26	**0.42**	0.38	**26.10**	22.69
Artemyevsky	**1,540**	1,283	**1.92**	1.92	**6.31**	5.63	**1.09**	1.12	**115.35**	125.48
Total East Region	**4,707**	4,686	**2.33**	2.44	**4.36**	3.94	**0.84**	0.80	**68.30**	65.39
Total Kazakhmys Mining	**37,507**	33,432	**0.95**	1.01	**3.31**	3.55	**0.66**	0.66	**16.78**	17.69

[1] Totals only relate to producing mines.

(b) Coal mining

	Coal mined		Waste stripped		Strip ratio	
	2012 kt	2011 kt	**2012 kbcm**	2011 kbcm	**2012 bcm:t**	2011 bcm:t
Molodezhny	**6,672**	6,967	**14,283**	16,956	**2.14**	2.43
Kusheki	**676**	658	**4,418**	4,280	**6.54**	6.51
Total Kazakhmys Mining	**7,348**	7,625	**18,701**	21,236	**2.55**	2.79

2. Kazakhmys Mining continued
(c) Copper processing

	Copper concentrate produced		Copper in concentrate	
	2012 kt	2011 kt	**2012 %**	2011 %
Zhezkazgan Region				
Zhezkazgan	**355**	340	**33.7**	37.7
Satpayev	**77**	57	**23.5**	27.1
Total Zhezkazgan Region	**432**	397	**31.9**	36.2
Central Region				
Balkhash	**252**	210	**16.5**	17.2
Karagaily (Abyz)	**52**	202	**5.8**	3.6
Karagaily (Akbastau)	**183**	25	**9.8**	5.7
Karagaily (Kosmurun)	**–**	33	**–**	5.9
Nurkazgan (Akbastau)	**18**	–	**16.7**	–
Nurkazgan	**70**	82	**18.6**	19.0
Total Central Region	**575**	552	**13.6**	11.3
East Region				
Orlovsky	**235**	278	**18.1**	18.8
Belousovsky	**71**	75	**16.5**	16.1
Irtyshsky	**37**	35	**18.5**	18.2
Nikolayevsky	**95**	90	**21.5**	20.6
Total East Region	**438**	478	**18.6**	18.7
Own copper concentrate processed by third party	**21**	28	**27.2**	26.9
Total Kazakhmys Mining (own concentrate)	**1,466**	1,455	**20.7**	20.8
Purchased concentrate	**5**	5	**47.3**	48.6
Total Kazakhmys Mining (own and purchased concentrate)	**1,471**	1,460	**20.7**	20.8

(d) Zinc and precious metals processing

	Zinc concentrate produced		Zinc in concentrate		Silver[1]		Gold[1]	
	2012 kt	2011 kt	**2012 %**	2011 %	**2012 g/t**	2011 g/t	**2012 g/t**	2011 g/t
Zhezkazgan Region								
Zhezkazgan	**–**	–	**–**	–	**535.9**	514.0	**–**	–
Satpayev	**–**	–	**–**	–	**468.6**	663.0	**–**	–
Total Zhezkazgan Region	**–**	–	**–**	–	**524.4**	535.4	**–**	–
Central Region								
Balkhash	**–**	–	**–**	–	**84.7**	93.0	**3.0**	2.6
Karagaily	**7**	16	**41.4**	40.7	**79.5**	71.8	**5.0**	7.0
Nurkazgan	**–**	–	**–**	–	**53.4**	37.8	**5.6**	5.5
Total Central Region	**7**	16	**41.4**	40.7	**77.8**	74.9	**5.1**	5.1
East Region								
Orlovsky	**112**	95	**45.7**	45.7	**163.4**	126.5	**1.7**	1.5
Belousovsky	**18**	14	**40.1**	37.0	**92.2**	87.2	**1.1**	1.2
Irtyshsky	**22**	22	**47.5**	47.0	**593.2**	666.2	**2.8**	2.9
Nikolayevsky	**134**	114	**44.5**	42.5	**752.0**	600.2	**6.3**	4.9
Artemyevsky (KazZinc)	**38**	50	**51.4**	51.2	**1442.9[3]**	1444.0[3]	**9.3[3]**	8.7[3]
Total East Region	**324**	295	**44.9[2]**	43.8[2]	**316.4[2]**	248.6[2]	**2.7[2]**	2.2[2]
Total Kazakhmys Mining (own and purchased concentrate)	**331**	311	**45.6**	44.9	**301.2**	284.5	**3.6**	4.0

1 Grade in grammes per tonne of copper concentrate.
2 Production only from own concentrators within East Region.
3 Includes gold and silver content in gravity concentrate toll processed by KazZinc from Artemyevsky ore.

2. Kazakhmys Mining continued

(e) Copper cathode production

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2012 kt	2011 kt	**2012 %**	2011 %	**2012 kt**	2011 kt
Zhezkazgan smelter						
Own concentrate	**354**	332	**29.6**	31.9	**111**	111
Purchased concentrate	**–**	–	**–**	–	**–**	–
Other[1]	**–**	–	**–**	–	**–**	–
Total Zhezkazgan smelter	**354**	332	**29.6**	31.9	**111**	111
Balkhash smelter						
Own concentrate	**1,133**	1,124	**18.0**	17.6	**181**	188
Purchased concentrate	**5**	5	**47.3**	47.6	**2**	2
Other[1]	**–**	1	**78.0**	68.8	**–**	–
Total Balkhash smelter	**1,138**	1,130	**18.1**	17.8	**183**	190
Total Kazakhmys Mining (excluding tolling)	**1,492**	1,462	**20.9**	21.0	**294**	301
Tolling	**62**	125	**0.9**	5.4	**1**	7
Total Kazakhmys Mining (including tolling)	**1,554**	1,587	**20.0**	19.8	**295**	308

1 Includes materials (slag, scrap, etc.) and ore used directly in smelting process reprocessed at both the Zhezkazgan and Balkhash smelters.

(f) Copper rod and acid production

	Copper rod		Acid production	
	2012 kt	2011 kt	**2012 kt**	2011 kt
Total Kazakhmys Mining (Zhezkazgan smelter)	**24**	32	**1,053**	1,083

(g) Precious metal production

	Silver		Gold bar		Gold doré	
	2012 koz	2011 koz	**2012 koz**	2011 koz	**2012 koz**	2011 koz
Kazakhmys Mining[1]	**12,643**	13,137	**116**	118	**13**	33
Tolling	**112**	901	**18**	20	**–**	–
Total Kazakhmys Mining (including tolling)	**12,755**	14,038	**134**	138	**13**	33

1 Includes production from mines in the former Gold division: Central Mukur and Mizek.

(h) Other production

	2012	2011
Enamel wire (t)	**1,268**	1,243
Lead dust (t)	**9,065**	10,381

(i) Sales

	2012		2011	
	kt[1]	**$ million**	kt[1]	$ million
Copper cathode	**259**	**2,088**	265	2,318
Copper rod	**23**	**187**	28	252
Total copper cathode equivalent sales	**282**	**2,275**	293	2,570
Zinc metal in concentrate	**151**	**154**	146	177
Silver[2] (koz)	**13,206**	**414**	13,526	479
Gold bar (koz)	**180**	**300**	53	79
Gold doré (koz)	**13**	**22**	33	54

1 Kilotonnes (unless otherwise stated).
2 Sales of by-product include production from mines in the former Gold division: Central Mukur and Mizek.

(j) Average realised prices

	2012	2011
Copper ($/t)	**8,067**	8,756
Zinc concentrate ($/t)	**1,022**	1,215
Silver ($/oz)	**31.3**	35.4
Gold ($/oz)	**1,667**	1,537

3. Kazakhmys Power – production and sales

	2012	2011
Ekibastuz GRES-1		
Electricity power generation (GWh)	**15,164**	13,402
Net power generated (GWh)	**14,368**	12,697
Net power generated attributable to Kazakhmys[1] (GWh)	**7,184**	6,349
Realised tariff prices (tenge/kWh)	**6.01**	5.38
Coal		
Coal production[2] (kt)	**–**	1,856
Captive Power Stations		
Electricity power generation (GWh)	**6,441**	6,452
Net power generated (GWh)	**5,562**	5,578
Heating power (KGcal)	**3,838**	3,716
Realised tariff prices (tenge/kWh)	**4.19**	3.42

[1] Represents 50% of net power generated by Ekibastuz GRES-1.

[2] Represents coal produced by Maikuben West coal mine until its disposal on 17 May 2011.

4. MKM – production and sales

	2012		2011	
	Production kt	**Sales kt**	Production kt	Sales kt
Wire rod	**108**	**110**	103	101
Drawn wire	**36**	**36**	42	42
Total wire	**144**	**146**	145	143
Pre-rolled	**15**	**15**	8	8
Sheets	**10**	**18**	11	18
Strips	**59**	**52**	60	52
Total flat	**84**	**85**	79	78
Tubes	**13**	**13**	16	15
Bars	**26**	**26**	25	26
Total tubes and bars	**39**	**39**	41	41
Total MKM	**267**	**270**	265	262

Reserves and resources estimation methods

Kazakhmys Mining

The Republic of Kazakhstan inherited the classification system and estimation methods for minerals established by the Former Soviet Union (FSU). Updated 'Regulations for the Classification of Non-ferrous Metals Reserves' became law in Kazakhstan in 2006. In practice, this means that the statements of reserves and resources developed by Kazakhmys and the mining plans to which they relate must be submitted for approval to the corresponding committees of the Ministry of Industry and New Technologies for which adherence to the standardised national system of reserves and resources estimation is mandatory.

As part of the exploitation licence for each mineral deposit, a set of 'Conditions for Estimation of Reserves' are prepared by a Kazakhstan licensed design institute and submitted for approval by the State. The Conditions apply a well-defined process of classifying the specific deposit into one of three deposit categories, subject to which, the principles for exploration and classification of reserves and resources have been established. The 'Conditions for Estimation of Reserves' for each deposit specify the minimum thickness for exploitation of the ore body and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties.

Reserves and resources have traditionally been estimated by Kazakhmys according to the FSU's 'Classification and Estimation Methods for Reserves'. It is apparent that there is a growing trend towards greater flexibility and discussion with state authorities with respect to resource estimation methods. This has been reflected in the increased use of computers and associated software by Kazakhmys in maintaining records about reserves at the operating mines and using databases linked to modelling software to assist in exploration and preliminary resource estimation. IMC recognises this as an important step to achieve verifiable and internally consistent estimates.

IMC has reviewed the reserves statements of Kazakhmys and has restated them in accordance with the criteria required to meet JORC standards. 'Guidelines on the Alignment of Russian minerals reporting standards and the CRIRSCO Template' were published during 2010 as a joint initiative of the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) and the Russian Federal Government Agency State Commission on Mineral Reserves. The guidelines have been used to align categories of reserves (C2, C1, B and A) with appropriate Mineral Resource categories (Measured, Indicated and Inferred). The role of the JORC Competent Person, however, remains as being responsible for any estimate that is reported.

Mineral Resources, by definition, must have reasonable prospects for eventual economic extraction. In general, therefore, the total active balance resource, where no unresolvable problems are foreseen, is considered as the total Indicated and Measured Mineral Resource at a mine.

At the mature Zhezkazgan mines, the amount of commercial reserves that have been fully developed for extraction is equated to the Proved Ore Reserve (inclusive of loss and dilution factors). The Measured Mineral Resource which corresponds to the Proved Ore Reserve can be derived, as can the Indicated Mineral Resource and Probable Ore Reserve components.

Silver grades for the Zhezkazgan mines are stated for the total Mineral Resource as the accuracy of the estimate is not as precise as for copper. The silver grade value is considered to be appropriate to an Indicated Resource level of confidence but is applied to Measured Resource categories for the sake of presenting average values for silver across the Company.

Similarly, the by-product gold and silver grades for Bozshakol are only considered to be estimated to an Inferred Resource level of accuracy.

Generally, at Kazakhmys mines other than at Zhezkazgan, the active balance reserve is divided into respective categories and the total of C1 (plus A and B) categories are assigned to Measured Mineral Resource and C2 category is assigned to Indicated Mineral Resource. Conversion of Measured Mineral Resource to Proved Ore Reserve and Indicated Mineral Resource to Probable Ore Reserve is made by the application of appropriate modifying factors for loss and dilution. Another important consideration is the level of planning and legal approval for the exploitation of a particular reserve block. For operating mines, Mineral Resources have been converted to Ore Reserves where the reserve block can be exploited from existing capital development (shafts, declines, haulages etc), or where a feasibility study for the construction of new capital development has been completed.

The assessment of Inferred Resources for Kazakhmys is incomplete. The mines do not keep records of prognosticated reserves, categories P1, P2 and P3, which may include material that could be considered equivalent to JORC category Inferred Resources. Some Inferred Resources are shown in the tabulations where the competent person has deemed that the degree of confidence in the estimate is appropriate to that category.

The foregoing tabulations show new projects in addition to operating mines. Projects, for the purpose of this report, were defined at the outset by Kazakhmys and include greenfield sites and brownfield sites near to existing mines. New projects have to demonstrate that feasibility studies have been completed and that appropriate legal approvals have been granted before reserves can be included in the statement.

These estimates form the basis for the process of restatement of reserves in accordance with JORC compliant criteria. All reserves quoted in the following tables are discounted for ore losses and dilution and refer to estimates of tonnes and contained metal grades at the point of delivery to the processing plant. Resources are not discounted for losses and dilution and are inclusive of reserves. All figures in reserves and resources are in dry metric tonnes and are dated 31 December 2012.

Kazakhmys Mining gold resources

Following international convention, gold resources reported in this report are *in situ* estimates, while the reserves make due allowance for mining recovery and dilution, based on recent operational experience or assumptions made in feasibility studies. Ore Reserves are contained within the Mineral Resources.

Kazakhmys Mining

Summary of metal reserves

Region		Reserves[1] kt 2012	2011	Copper % 2012	2011	Zinc % 2012	2011	Gold g/t 2012	2011	Silver[2] g/t 2012	2011	Lead % 2012	2011
Zhezkazgan Region	Proved	**137,701**	161,278	**0.73**	0.70	**–**	–	**–**	–	**–**	–	**–**	–
	Probable	**211,885**	183,209	**0.74**	0.75	**–**	–	**–**	–	**–**	–	**–**	–
	Total	**349,586**	344,487	**0.73**	0.73	**–**	–	**–**	–	**10.10**	10.69	**–**	–
Central Region	Proved	**312,574**	201,408	**0.71**	0.96	**0.07**	0.07	**0.22**	0.35	**2.23**	2.78	**–**	–
	Probable	**28,616**	139,519	**1.66**	0.53	**0.29**	0.02	**0.79**	0.11	**7.02**	1.31	**0.02**	–
	Total	**341,190**	340,927	**0.79**	0.79	**0.09**	0.05	**0.27**	0.25	**2.64**	2.18	**0.01**	–
East Region	Proved	**24,928**	34,409	**2.61**	3.06	**5.57**	4.02	**0.95**	0.84	**43.28**	51.77	**1.31**	1.16
	Probable	**6,169**	8,036	**1.71**	2.10	**2.92**	2.49	**0.32**	0.30	**65.16**	43.76	**0.52**	0.44
	Total	**31,097**	42,445	**2.43**	2.88	**5.05**	3.73	**0.82**	0.74	**47.62**	50.25	**1.15**	1.02
Total Kazakhmys Mining	**Proved**	**475,203**	397,095	**0.82**	1.04	**0.34**	0.38	**0.19**	0.25	**6.21**	9.66	**0.07**	0.10
	Probable	**246,670**	330,764	**0.87**	0.69	**0.11**	0.07	**0.10**	0.05	**12.01**	8.23	**0.02**	0.01
	Total	**721,873**	727,859	**0.83**	0.88	**0.26**	0.24	**0.16**	0.16	**8.19**	9.01	**0.05**	0.06
Analysed as: Operating mines[3]	Proved	**475,203**	397,095	**0.82**	1.04	**0.34**	0.38	**0.19**	0.25	**6.21**	9.66	**0.07**	0.10
	Probable	**246,670**	330,764	**0.87**	0.69	**0.11**	0.07	**0.10**	0.05	**12.01**	8.23	**0.02**	0.01
	Total	**721,873**	727,859	**0.83**	0.88	**0.26**	0.24	**0.16**	0.16	**8.19**	9.01	**0.05**	0.06
Development projects	Proved	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	Probable	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	Total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

1 Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.
2 Silver values for the Zhezkazgan Region are not available by blocks, only at the borehole level, and have been averaged over each operation by Kazakhmys LLC.
3 Mine extensions are included within the original ore body as part of operating mines.

Summary of metal resources

Region		Resources[1] kt		Copper %		Zinc %		Gold g/t		Silver[2] g/t		Lead %	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Zhezkazgan Region	Measured	**298,887**	330,515	**1.11**	1.07	**–**	–	**–**	–	**–**	–	**–**	–
	Indicated	**302,935**	274,945	**1.04**	1.08	**–**	–	**–**	–	**–**	–	**–**	–
	Total	**601,822**	605,460	**1.08**	1.08	**–**	–	**–**	–	**13.74**	14.09	**–**	–
	Inferred	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Central Region	Measured	**1,706,859**	1,602,334	**0.46**	0.48	**0.04**	0.04	**0.09**	0.10	**1.91**	1.93	**0.02**	0.02
	Indicated	**2,855,190**	2,965,308	**0.40**	0.39	**–**	–	**0.08**	0.06	**1.29**	1.08	**–**	–
	Total	**4,562,048**	4,567,641	**0.42**	0.42	**0.02**	0.02	**0.08**	0.08	**1.52**	1.38	**0.01**	0.01
	Inferred	**830,412**	830,412	**0.30**	0.30	**–**	–	**0.09**	0.09	**1.20**	0.83	**–**	–
East Region	Measured	**35,200**	36,802	**2.58**	3.10	**5.20**	4.46	**0.86**	0.94	**61.57**	57.86	**1.17**	1.25
	Indicated	**38,271**	40,930	**1.66**	1.85	**4.61**	4.67	**0.60**	0.53	**75.73**	68.62	**1.45**	1.18
	Total	**73,471**	77,732	**2.10**	2.44	**4.89**	4.57	**0.72**	0.72	**68.95**	63.53	**1.31**	1.21
	Inferred	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total Kazakhmys Mining	**Measured**	**2,040,946**	1,969,651	**0.59**	0.63	**0.12**	0.12	**0.09**	0.10	**4.49**	4.79	**0.03**	0.04
	Indicated	**3,196,396**	3,281,182	**0.47**	0.47	**0.06**	0.06	**0.08**	0.06	**3.47**	3.15	**0.02**	0.02
	Total	**5,237,341**	5,250,833	**0.52**	0.53	**0.08**	0.08	**0.08**	0.08	**3.87**	3.77	**0.02**	0.02
	Inferred	**830,412**	830,412	**0.30**	0.30	**–**	–	**0.09**	0.09	**1.20**	0.83	**–**	–
Analysed as:													
Operating mines	Measured	**519,496**	443,908	**0.93**	1.12	**0.40**	0.42	**0.21**	0.28	**9.20**	11.55	**0.08**	0.11
	Indicated	**321,134**	405,921	**0.98**	0.83	**0.47**	0.41	**0.27**	0.13	**17.92**	13.54	**0.16**	0.11
	Total	**840,630**	849,829	**0.95**	0.98	**0.43**	0.42	**0.24**	0.21	**12.53**	12.50	**0.11**	0.11
	Inferred	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Development projects[3]	Measured	**1,521,450**	1,525,743	**0.48**	0.48	**0.03**	0.03	**0.05**	0.05	**2.89**	2.83	**0.02**	0.02
	Indicated	**2,875,262**	2,875,262	**0.42**	0.42	**0.01**	0.01	**0.05**	0.05	**1.86**	1.68	**–**	–
	Total	**4,396,711**	4,401,004	**0.44**	0.44	**0.02**	0.02	**0.05**	0.05	**2.22**	2.08	**0.01**	0.01
	Inferred	**830,412**	830,412	**0.30**	0.30	**–**	–	**0.09**	0.09	**1.20**	0.83	**–**	–

1 Resources include undiscounted reserves. No ore loss or dilution has been included.

2 Silver values for the Zhezkazgan Region are not available by blocks, only at the borehole level, and have been averaged over each operation by Kazakhmys LLC.

3 Development projects relate to Aidarlay, Aktogay, Anissimov Klyuch, Bozshakol, Karagaily, Kosmurun, Mizek underground, Nikolayevsky North, Nurkazgan East, Sayak IV, Taskora, Zhaisan, Zhilandy and Zhomart phase II. Itauz was also included as a development project in 2011, but since operations have now commenced it has been classified as an operating mine in 2012.

Kazakhmys Mining Gold Reserves

Summary of metal reserves

		Reserves[1] kt		Gold g/t		Silver g/t		Copper %		Gold equivalent[2] Moz	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Operating mines[3]	Proved	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	Probable	**–**	283	**–**	1.18	**–**	–	**–**	–	**–**	0.01
	Total	**–**	283	**–**	1.18	**–**	–	**–**	–	**–**	0.01
Development project[4]	Proved	**6,639**	6,639	**1.43**	1.43	**8.54**	8.54	**0.84**	0.84	**0.59**	0.64
	Probable	**8,788**	8,788	**1.36**	1.36	**8.36**	8.36	**0.84**	0.84	**0.76**	0.83
	Total	**15,427**	15,427	**1.39**	1.39	**8.44**	8.44	**0.84**	0.84	**1.36**	1.47
Total Kazakhmys Mining Gold Reserves	**Proved**	**6,639**	6,639	**1.43**	1.43	**8.54**	8.54	**0.84**	0.84	**0.59**	0.64
	Probable	**8,788**	9,071	**1.36**	1.35	**8.36**	8.10	**0.84**	0.82	**0.76**	0.84
	Total	**15,427**	15,710	**1.39**	1.38	**8.44**	8.28	**0.84**	0.83	**1.36**	1.48

1 Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.
2 Gold equivalent ounces have been calculated based on the following prices: copper $6,000 (2011: $5,500) per tonne, gold $1,300 (2011: $1,000) per ounce and silver $22.00 (2011: $16.00) per ounce.
3 There were no operating mines in 2012 (2011: Mukur mine).
4 Development project relates to Bozymchak.

Summary of metal resources

		Resources[1] kt		Gold g/t		Silver g/t		Copper %		Gold equivalent[2] Moz	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Operating mines[3]	Measured	**1,592**	1,592	**1.72**	1.72	**5.10**	5.10	**0.52**	0.52	**0.13**	0.14
	Indicated	**1,992**	1,992	**1.51**	1.51	**3.16**	3.16	**0.42**	0.42	**0.14**	0.15
	Total	**3,584**	3,584	**1.61**	1.61	**4.03**	4.03	**0.46**	0.46	**0.27**	0.28
	Inferred	**704**	704	**1.70**	1.70	**4.97**	4.97	**0.51**	0.51	**0.06**	0.06
Development project[4]	Measured	**6,240**	6,240	**1.63**	1.63	**9.77**	9.77	**0.96**	0.96	**0.64**	0.69
	Indicated	**13,714**	13,714	**1.52**	1.52	**7.45**	7.45	**0.80**	0.80	**1.23**	1.33
	Total	**19,954**	19,954	**1.56**	1.56	**8.18**	8.18	**0.85**	0.85	**1.87**	2.02
	Inferred	**5,920**	5,920	**1.37**	1.37	**6.97**	6.97	**0.65**	0.65	**0.46**	0.49
Total Kazakhmys Mining Gold Reserves	**Measured**	**7,832**	7,832	**1.65**	1.65	**8.82**	8.82	**0.87**	0.87	**0.77**	0.83
	Indicated	**15,706**	15,706	**1.52**	1.52	**6.91**	6.91	**0.75**	0.75	**1.37**	1.47
	Total	**23,538**	23,538	**1.57**	1.57	**7.54**	7.55	**0.79**	0.79	**2.14**	2.30
	Inferred	**6,624**	6,624	**1.41**	1.41	**6.76**	6.76	**0.64**	0.64	**0.52**	0.55

1 Resources include undiscounted reserves. No ore loss or dilution has been included.
2 Gold equivalent ounces have been calculated based on the following prices: copper $6,000 (2011: $5,500) per tonne, gold $1,300 (2011: $1,000) per ounce and silver $22.00 (2011: $16.00) per ounce.
3 Operating mines consist of the Mizek and Mukur mines.
4 Development project relates to Bozymchak.

Coal reserves

		Reserves[1] MT		Ash ad[2] kcal/kg		CV ncvar[3] g/t		Sulphur %	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Kazakhmys Mining[4]	Proved	**352.4**	282.1	**–**	–	**–**	–	**–**	–
	Probable	**–**	99.9	**–**	–	**–**	–	**–**	–
	Total	**352.4**	382.0	**45.2**	44.8	**3,679**	3,680	**0.5**	0.5

1 Includes coal loss and increase in ash content.
2 ad – refers to air dried.
3 ncvar – refers to net calorific value as received.
4 Consists of the Molodezhny and Kusheki coal mines which are part of the Central Region.

During 2012, a change to the way coal reserves are reported was adopted. From 2012 coal reserves are shown exclusive of losses, whereas in the prior year coal reserves were reported inclusive of anticipated losses. In 2012 coal reserves previously included as probable have been reclassified to proved reserves.

Revision of reserves and resources statement to 31 December 2012

IMC Group Consulting Ltd ('IMC') has undertaken a review of the reserve and resource estimates prepared by Kazakhmys PLC (Kazakhmys or the 'Company'), as the basis for the preparation of a statement of Ore Reserves and Mineral Resources as at 31 December 2012. Tabulations of Ore Reserves and Mineral Resources, comparisons with the previous annual statement and short technical descriptions, are provided for Kazakhmys' copper, coal and gold assets.

The annual review of reserves and resources carried out by IMC is predominantly focused each year on depletion through production, analysis of company plans, exploration and other changes affecting the reserves and resources.

The consideration of Mineral Resources is based on the JORC definition which says that a Mineral Resource is an occurrence of minerals in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. In converting Mineral Resources to Ore Reserves in accordance with the JORC code IMC has to consider a number of 'Modifying Factors' and the code definition that, 'an Ore Reserve is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.'

IMC do not consider it necessary to visit every operation each year for the purposes of verifying the requirements of the Modifying Factors. A full due diligence of all the Company's mining and processing assets and development projects was conducted by IMC in 2010 and the results of the study formed the basis of a Competent Person's Report (CPR) which was used by the Company for their listing on the Hong Kong Stock Exchange in 2011. The observations and conclusions made by IMC in the CPR are still considered to be largely relevant at the end of 2012, and any discrepancies from the 2010 benchmark were accommodated during discussion with the Company's technical head office team based in Astana, Kazakhstan.

The Statement of Ore Reserves and Mineral Resources is restated in accordance with the criteria of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves' (2012), published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and collaborating institutions (the 'JORC Code'). For the sake of clarity in this report, reference to JORC category 'Ore Reserve' and 'Mineral Resource' begin with a capital letter. The uncapitalised 'reserve' refers to the Kazakhstan use of the word which can, depending on the context, be synonymous with both the JORC terms 'Ore Reserve' and 'Mineral Resource'.

IMC is satisfied, from the audit undertaken, that the recently revised estimates of reserves and resources prepared by the Company, are in accordance with the classification system required by law in the Republic of Kazakhstan and that, correspondingly, the estimates have a consistent basis for expressing the degree of confidence for stating quantities of exploitable minerals at specific grades of metal content. On the basis of the estimates supplied by the Company, IMC has applied the same technical criteria as utilised in the 2010 audit, for preparation of the restatement of ore reserves and mineral resources as at 31 December 2012, in accordance with the reporting criteria of the JORC Code.

Guidelines for the alignment of Russian minerals reporting standards and the JORC Code were published in 2010 and again these have been applied in the preparation of the Kazakhmys Ore Reserve and Mineral Resource Statement. This is considered appropriate as all the mineral deposits currently being mined, or developed, by Kazakhmys were explored during the Soviet era and reserves approved during that era are still referenced. The aim of the new guidelines is to provide a standard reporting terminology for use in disclosure of the assets of mining companies to stock markets.

David Smith
CEng, MIMMM, BSC (Hons)
Director, IMC Group Consulting Ltd

25 February 2013

IMC Group Consulting Ltd
Icon Business Centre
Lake View Drive
Sherwood Park
Nottingham NG15 0DT
United Kingdom

Annual General Meeting

The Annual General Meeting of the Company will be held at 12.15pm on Friday 17 May 2013 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom. The Notice of Annual General Meeting and the Form of Proxy are enclosed with this Annual Report and Accounts. The Notice of Annual General Meeting can also be found in the Investors & Media section on the Kazakhmys website (www.kazakhmys.com.)

Electronic shareholder communications

Kazakhmys uses its website (www.kazakhmys.com) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner.

Electronic communications allow shareholders to access information instantly as well as helping Kazakhmys reduce its costs and its impact on the environment. Shareholders can sign up for electronic communications via Computershare's Investor Centre website at www.investorcentre.co.uk. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's UK or Hong Kong registrar.

In addition to enabling shareholders to register to receive communications by email, Computershare's Investor Centre website provides a facility for shareholders to manage their shareholding online by allowing them to:

- view their share balance;
- change their address;
- view payment and tax information; and
- update payment instructions.

Computershare's Investor Centre website also offers a share dealing service for shareholders on the UK register.

Trading account

Shareholders on the Company's UK register can open a trading account by contacting the Company's UK registrar. This service allows shareholders to hold their shares electronically rather than in certificated form. There are no set up or administration fees and certificates can be deposited free of charge (£35 per line of stock fee applies to transfers out). Additional highlights include:

- ability to trade online or over the telephone;
- £20 fee per transaction (telephone commission 1%, minimum £20);
- access to international markets;
- trade in or hold up to seven currencies; and
- limit orders, allowing shareholders to place trade instructions outside of London Stock Exchange opening hours.

The value of your investments may go down as well as up. You may not get back all the funds that you invest. The potential for profit or loss from transactions on international markets or in foreign denominated currencies will be affected by fluctuations in exchange rates.

Electronic voting

Shareholders can submit proxies for the 2013 Annual General Meeting electronically by logging on to www.investorcentre.co.uk/eproxy. Electronic proxy appointments must be received by the Company's UK or Hong Kong registrar no later than 12.15pm UK time (4.15pm Hong Kong time) on Wednesday 15 May 2013 (or not less than 48 hours before the time fixed for any adjourned meeting).

Website

A wide range of information on Kazakhmys is available at www.kazakhmys.com including:

- financial information – annual and half-yearly reports as well as production reports;
- share price information – current trading details and historical charts;
- shareholder information – dividend information, AGM results and details of the Company's UK and Hong Kong registrars; and
- press releases – current and historical.

Registrars

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact:

For shareholders holding their shares on the UK register:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
United Kingdom

Tel: +44 (0)870 707 1100
Fax: +44 (0)870 703 6101
Email: web.queries@computershare.co.uk

For shareholders holding their shares on the Hong Kong register:

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Tel: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

For shareholders holding their shares on the Kazakhstan Stock Exchange:

Shareholder Queries
Kazakhmys PLC
6th Floor, Cardinal Place
100 Victoria Street
London SW1E 5JL
United Kingdom

Tel: +44 (0)20 7901 7898
Email: shareholder@kazakhmys.com

Unsolicited telephone calls and correspondence

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target US or UK shareholders, offering to sell them what often turn out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive. If shareholders receive any unsolicited investment advice, they can check if the person or organisation is properly authorised by the Financial Services Authority (FSA) at www.fsa.gov.uk/fsaregister and the matter may be reported to the FSA at www.fsa.gov.uk/scams, or by calling 0845 606 1234 (UK) or +44 20 7066 1000 (international). Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Dividends

The Board recommends the payment of a final dividend of 8.0 US cents per ordinary share (2011: 20.0 US cents). If approved, the dividend will be paid on 21 May 2013 to shareholders on the UK register of members at the close of business in the UK on 26 April 2013, and to shareholders on the Hong Kong register of members at the opening of business in Hong Kong on 26 April 2013. An interim dividend of 3.0 US cents per share (2011: 8.0 US cents) was paid on 3 October 2012.

Currency option and dividend mandate

The Company declares dividends in US dollars. For those shareholders who hold their shares on the UK register the default currency for receipt of their dividends is US dollars, although they can elect to receive their dividends in UK pounds sterling. For those shareholders who wish to receive their dividend in UK pounds sterling, they should contact the Company's UK registrar to request a currency election form. For the final dividend payable on 21 May 2013, a completed currency election form must be received by the Company's UK registrar no later than 3.00pm on 29 April 2013.

For those shareholders who hold their shares on the Hong Kong register the default currency for receipt of their dividends is Hong Kong dollars, although they can elect to receive their dividends in US dollars. Currency election forms for the final dividend will be dispatched by the Company's Hong Kong registrar to shareholders on the Hong Kong register of members on 26 April 2013 and must be returned by 14 May 2013. Shareholders on the Hong Kong register of members can also contact the Company's Hong Kong registrar to request a currency election form.

Shareholders on the UK register of members can arrange for dividends to be paid directly into a UK bank or building society account. To take advantage of this facility, you should contact the Company's UK registrar to request a dividend mandate form or register online at www.investorcentre.co.uk. The arrangement is only available in respect of dividends paid in UK pounds sterling.

Half-yearly results

The half-yearly results, to be announced on the London Stock Exchange, Hong Kong Stock Exchange and Kazakhstan Stock Exchange in August 2013, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy. Shareholders that have signed up for electronic shareholder communication will be sent a notification when these are available on the website.

Company Secretary

Robert Welch
Tel: +44 (0)20 7901 7800
Email: robert.welch@kazakhmys.com

Registered office

Kazakhmys PLC
6th Floor, Cardinal Place
100 Victoria Street
London SW1E 5JL
United Kingdom

Tel: +44 (0)20 7901 7800
Registered number: 05180783

Joint corporate brokers

J.P. Morgan Cazenove Limited
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Citigroup Global Markets Limited
33 Canada Square
London E14 5LB
United Kingdom

Auditors

KPMG Audit Plc
15 Canada Square
Canary Wharf
London E14 5GL
United Kingdom

Shareholder interests at 31 December 2012

Number of shareholders: 1,899

Number of shares in issue: 535,420,180

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	948	49.92	0.06
1,001 to 5,000	353	18.59	0.16
5,001 to 10,000	118	6.21	0.16
10,001 to 100,000	283	14.90	2.00
Over 100,000	197	10.38	97.62
Total	**1,899**	**100.00**	**100.00**

By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	694	36.55	0.32
Banks/nominees	1,163	61.24	81.51
Pension funds	1	0.05	0.00
Investment/unit trusts	2	0.11	0.05
Insurance companies	4	0.21	0.00
Corporate holders	32	1.69	15.90
Hong Kong Share Register	1	0.05	0.04
Share Plan Control Account	1	0.05	0.00
Treasury Account	1	0.05	2.18
Total	**1,899**	**100.00**	**100.00**

Financial calendar

Ex-dividend date	24 April 2013
Record date	26 April 2013
Final dividend payable	21 May 2013
Interim dividend payable	October 2013

Events calendar

Q1 Interim Management Statement	April 2013
Annual General Meeting	17 May 2013
Half-yearly results announced	August 2013
Q3 Interim Management Statement	October 2013

bcm:t
Bank cubic metres excavated to recover one metric tonne of coal

Board or Board of Directors
the Board of Directors of the Company

Capital employed
the aggregate of equity attributable to owners of the Company, non-controlling interests and borrowings

Cash cost of copper after by-product credits
Kazakhmys Mining cash operating costs excluding purchased concentrate and mineral extraction tax less by-product revenues, divided by the volume of copper cathode equivalent sales

CDB
the China Development Bank Corporation

CIT
Corporate income tax

CO_2
Carbon dioxide

Committee or Committees
All or any of the Audit, Group Health, Safety and Environment, Nomination or Remuneration Committees depending on the context in which the reference is used

Company or Kazakhmys
Kazakhmys PLC

CREST
An electronic means of settling share transactions and registering investors on a company's register of members

CRIRSCO guidelines
Guidelines on the alignment of Russian minerals reporting standards and the CRIRSCO Template were published during 2010 as a joint initiative of the Committee for Mineral Resources International Reporting Standards (CRIRSCO) and the Russian Federal Government Agency State Commission on Mineral Reserves

Directors
the Directors of the Company

dollar or $ or USD
United States dollars, the currency of the United States of America

EBITDA
Earnings before interest, taxation, the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation and mineral extraction tax

Ekibastuz GRES-1
Ekibastuz GRES-1 LLP

ENRC or ENRC PLC
Eurasian Natural Resources Corporation PLC

EPS
Earnings per share

EPS based on Underlying Profit
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business, and their resulting taxation and non-controlling interest impact, divided by the weighted average number of ordinary shares in issue during the period

EPT
Excess profits tax

ESP
Electrostatic precipitator

EURIBOR
European Inter Bank Offer Rate

Euro or €
Euro, the currency of certain member states of the European Union

Free Cash Flow
Net cash flow from operating activities before capital expenditure and non-current VAT associated with expansionary and new projects less sustaining capital expenditure on tangible and intangible assets

g/t
Grammes per metric tonne

Government
the Government of the Republic of Kazakhstan

the Group
Kazakhmys PLC and its subsidiary companies

GHSE Committee
Group Health, Safety and Environment Committee

Group EBITDA
Earnings before interest, taxation, the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation and mineral extraction tax adjusted for special items and including the share of EBITDA of the joint venture and associate

GVA
Gross value added, which is calculated as turnover less the input cost of copper cathode

GW
Gigawatt, a unit of power equal to one billion watts

GWh
Gigawatt-hour, one gigawatt-hour represents one hour of electricity consumed at a constant rate of one gigawatt

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standard

JORC
Joint Ore Reserves Committee

Kazakhmys Corporation LLC or Kazakhmys LLC
Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan

Kazakhmys Gold
Previously considered an operating segment of the Group, which included the processing of gold ore into refined ore and exploration and development activity in the precious metals sector in Central Asia. The Kazakhmys Gold operations are now included within the Kazakhmys Mining operating segment

Kazakhmys Mining
An operating segment of the Group, which comprises all entities and functions within the Group responsible for the exploration, evaluation, development, mining and processing of the Group's mineral resources and sale of the Group's metal products. The operating segment excludes the Group's captive power stations, which are included within the Kazakhmys Power operating segment

Kazakhmys Petroleum
An operating segment of the Group, until its disposal on 23 December 2011, which held a licence to conduct oil and gas exploration and development activity in the Eastern Akzhar exploration block in western Kazakhstan

Kazakhmys Power
An operating segment of the Group, which includes the Group's captive power stations, the Ekibastuz GRES-1 coal-fired power plant joint venture and Maikuben West coal mine (until 17 May 2011), whose principal activity is the sale of electricity to external customers and internally to Kazakhmys Mining

Kazakhstan
the Republic of Kazakhstan

kbcm
Thousand bank cubic metres

KEGOC
Kazakhstan Electricity Grid Operating Company

kg
Kilogramme

KGcal
Thousand gigacalories, units of heat energy

koz
Thousand ounces

kt
Thousand metric tonnes

km
Kilometres

KPI
Key Performance Indicator

kW
kilowatt, a unit of power equal to one thousand watts

kWh
kilowatt hour, one kilowatt hour represents one hour of electricity consumed at a constant rate of one kilowatt

lb
pound, unit of weight

LBMA
London Bullion Market Association

LIBOR
London Inter Bank Offer Rate

Listing
the listing of the Company's ordinary shares on the London Stock Exchange on 12 October 2005

LME
London Metal Exchange

megalitre
Thousand cubic metres

MET
Mineral extraction tax

MKM
MKM Mansfelder Kupfer und Messing GmbH, the Group's operating subsidiary in the Federal Republic of Germany and an operating segment of the Group, which manufactures copper and copper alloy semi-finished products

Moz
Million ounces

MT
Million metric tonnes

MW
Megawatt, a unit of power equivalent to one million watts

National Bank
The National Bank of Kazakhstan

Net dependable capacity
Maximum capacity sustained by a unit in a specified period modified for seasonal limitations and reduced by the capacity required for the plant

NO_x
Nitrogen oxides

Ounce or oz
A troy ounce, which equates to 31.1035 grammes

PXF
Pre-export finance debt facility

$/t or $/tonne
US dollars per metric tonne

Samruk-Kazyna
Joint Stock Company "National Welfare Fund "Samruk-Kazyna", an entity owned and controlled by the Government of Kazakhstan

Segmental EBITDA
Earnings before interest, taxation, the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation and mineral extraction tax from the Group's operating segments, including the share of EBITDA of the joint venture but excluding the share of EBITDA of the associate

SO_2
Sulphur dioxide

Special items
Those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 5 to the financial statements

SX-EW
solvent extraction and electrowinning, a two-stage metallurgy process used for the extraction of copper

t
metric tonnes

tenge or KZT
The official currency of the Republic of Kazakhstan

UK
United Kingdom

Underlying Profit
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and non-controlling interest effects. Underlying Profit is set out in note 13 to the financial statements

USc/lb
US cents per pound

Cautionary comment concerning forward-looking statements

This Annual Report includes forward-looking statements with respect to the business, strategy and plans of Kazakhmys and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of Kazakhmys to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing Rules and applicable law, Kazakhmys does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report.

For all the latest information

If you would like to find out more about our business, visit our website at: **www.kazakhmys.com**

Corporate Website

www.kazakhmys.com

Please visit our website for the latest information on our operations, performance, growth projects and corporate responsibility.

Online Annual Report 2012

ara2012.kazakhmys.com

Our Annual Report and Accounts 2012 is also available in HTML and PDF format.

Corporate Responsibility

www.kazakhmys.com/corporate_responsibility

Further information on our commitment to corporate responsibility.

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