



Focused on copper

Kazakhmys PLC Annual Report and Accounts 2013



Focused on copper

Kazakhmys is a leading natural resources group focused on the production of copper. Based primarily in Kazakhstan, we currently operate 16 mines along with our own concentrators, smelter and refinery.

Kazakhmys is one of the few integrated copper mining companies, able to process from ore to finished metal, and backed by our own power facilities.

In 2013, we delivered significant change with the disposal of our non-core assets. In 2014, we are considering further transformation.

We are growing our business with major mine developments, the largest mining programme in Central Asia. These projects will deliver our strategic target of output dominated by safe, large scale, low cost, open pit mines.

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

Cover photo: Site inspection at Aktogay.

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Kazakhmys in transformation

Over the past year Kazakhmys has gone through considerable transformation, selling non-core assets and focusing on our copper business.

The transactions include disposals of MKM, a German copper fabricator, our 26% holding in ENRC PLC and our 50% holding in Ekibastuz GRES-1, the largest power station in Kazakhstan. Completing these transactions will realise over \$2 billion and bring significant benefit to our balance sheet.

Optimisation of core copper business

Rising industry costs and declining metals prices have put pressure on profit margins in the mining industry. A key target for Kazakhmys is to achieve sustainable positive cash flow from our existing operations.

In 2013, the Mining Division achieved annualised cost savings of \$120 million and reduced sustaining capital expenditure by \$181 million. Continued improvements will be sought in 2014 to improve cash profitability.

Restructuring

We are considering a major restructuring which should significantly enhance the profile of our business.

Major growth projects

In 2012, we commenced development on-site at our Bozshakol project and in 2013 at Aktogay. These are both substantial, long-life, open pit mines, with a highly competitive operating cost, backed by long-term finance.

In 2014, we approved the potential acquisition of a third major project, which will provide additional future growth.

Bozshakol project

- Delivered mills and drive systems to site
- Remains on schedule for first production in 2015

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

In 2013, the structural steel frames of the main buildings at the site were complete and enclosed for the winter season enabling work to continue. The mills were delivered to the site and we commenced preparing for installation.

We are focusing on the construction of the main processing facilities: constructing workshops and the facilities of the concentrator. We are also completing the infrastructure.

In 2013, we appointed a second contractor which increased the cost but will provide additional resource to ensure a timely start-up. We remain on track for first production in 2015.

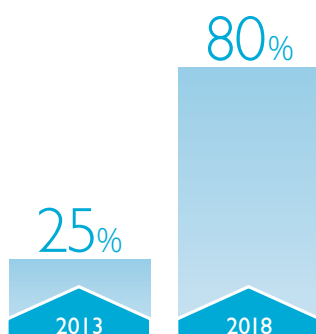
The project has a capital cost of around \$2.2 billion, and is being largely funded from a \$2.7 billion financing facility provided by the China Development Bank and Samruk-Kazyna.

Bozshakol will have a production life of over 40 years, with an average output of 100 kt copper in concentrate per annum for the first 10 years. The ore also contains valuable gold by-product which will result in a highly competitive operating cost.

1,173 MT
of 0.35% copper grade

5,255 koz
contained gold

Targeted ore output from open pits





Aktogay project

- Initial construction works commenced
- Scheduled for first production from oxide in 2015 and sulphide in 2017

Aktogay is a large open-cast mine in southeastern Kazakhstan, approximately 250 km from the Kazakhstan-China border. The ore body has significant similarities to Bozshakol.

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.

We started construction in early 2013 with site preparation and foundation works in process. We are preparing the territory for the main processing facilities: removing top soil, delivering equipment and machines. We have set up the temporary camp and offices and are preparing the ground for the permanent camp.

The project is primarily being funded from a \$1.5 billion financing facility from the China Development Bank.

1,597 MT

of 0.33% copper grade sulphide deposit

121 MT

of 0.37% copper grade oxide deposit

Koksay project

- Potential third major growth project
- Attractive future return

In early 2014, we approved the potential purchase of a third major growth project, which will provide expansion beyond Bozshakol and Aktogay. The project is consistent with our strategy of future production from a small group of large scale, low cost, open pit mines, focused on copper and within Central Asia, particularly Kazakhstan.

Koksay is in southeastern Kazakhstan and close to the Chinese border and, as with the other projects, is well located for existing infrastructure. It has a total resource of around 3,440 kt of copper, at an average grade of 0.48%. The deposit also contains silver and gold.

The project will be purchased for an initial payment of \$195 million, with a deferred payment of \$65 million. In 2014, we will spend around \$10 million, principally on additional drilling. The acquisition should complete by June 2014.

Restructuring

- Potential restructuring of the Group
- Kazakhmys PLC to retain East Region, Bozymchak and major growth projects

Following introduction of the optimisation programme and asset review, the Board is considering a restructuring, disposing of mature assets, primarily in the Zhezkazgan and Central Regions. These assets may have a greater prospect of successful optimisation and further investment outside the Group's ownership.

A restructuring of this nature would allow the Group to focus on the mines in the East Region, Bozymchak and the major growth projects. This is consistent with the Group's stated intention of achieving sustainable positive cash flow from existing operations and for future production to come from a smaller group of predominantly large scale, low cost, open pit mines.

Further updates will be provided during 2014.



Our operations and markets

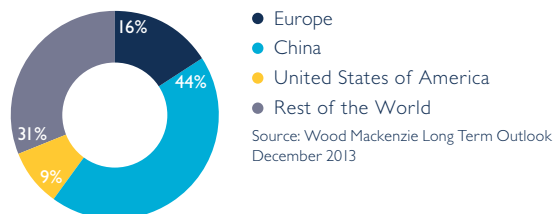
Kazakhmys is the largest copper producer in Kazakhstan and one of the leading global copper producers.

We listed in London in October 2005 and our shares can be traded in London, Hong Kong and Kazakhstan. We have delivered significant change over the past 12 months, disposing of assets and focusing on our core mining business.

Kazakhmys is one of the few integrated copper producers in the world, able to process from ore to finished metal.

Our mining and processing operations are backed by our own coal mines and power stations along with auxiliary and transportation departments. Being integrated ensures security of supply for several key inputs and allows us to exercise control over every stage of the production process. In addition to copper, our ore contains other valuable metals, such as zinc, silver and gold.

2013 global refined copper consumption



Our business model

1

Captive power

We own and operate two coal mines which supply our three captive power stations with coal. In 2013, 7% of our coal output was sold to external customers and the rest used internally. The captive power stations generated 5,723 GWh of which 59% was used internally.

7.6 MT
coal mined



2

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 have several programmes to improve the efficiency of our mines and to offset the trend of rising costs which occurs 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 2013, our mines produced 39 MT of ore with an average copper grade of 0.99%. The delivery of our major growth projects from 2015 will help transform our business, and production will increasingly come from new, low cost, open pit mines.

39 MT
ore mined

3

Processing

Kazakhmys owns two smelting and refining complexes, one of which is currently suspended. At the copper smelters, the concentrate is heated to release molten metal which is poured and cast into sheets known as anodes. The anodes are then refined to make finished copper cathodes, sheets of copper weighing up to 60 kg each. In 2014, around 60% of our output will be sold as cathode, with the balance sold as concentrate. Substantial funds are continually invested to reduce the environmental impact of the smelting and refining plants.

294 kt
production of own copper
cathode equivalent





For more information see pages

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30 Operating Review

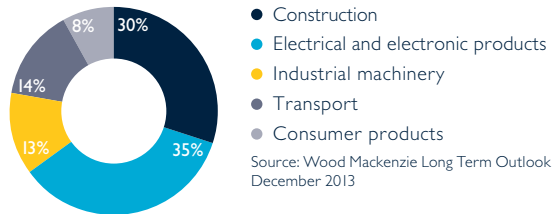
Our location gives us several advantages – access to the excellent natural resources of Kazakhstan, reliable logistics and utilities, an experienced workforce and close connections to key end markets.

Our mining operations are divided into three regions. We employ around 56,000 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 major copper markets. Our production is increasingly sold to China, the largest copper market in the world. Material is sold as either cathode or concentrate. Kazakhstan has direct rail links to China with typical rail journeys of just days.

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.

Global copper usage



Changing the face of our business

In 2014, we will be reviewing the possibility of separating the Group's assets and retaining East Region and the major growth projects. This could result in a smaller, highly cash generative business with significant growth potential.

East Region and the major growth projects

- Copper and other metals
- Growth projects



Zhezkazgan Region and Central Region

- Copper and other metals
- Coal mines
- Power



Delivering transformation



Simon Heale, Chairman

In March 2012, my predecessor Vladimir Kim described the development of a new Kazakhmys focused on copper production from a core of large-scale open pit mines. The new Kazakhmys will provide both a safer operating environment for our workforce and improved financial returns to our shareholders.

During 2013, we carried out some significant actions which help take us towards this vision with the disposal of non-core assets and the continued development of our major growth projects. However, there is still work to do and 2014 will be a critical year in this transformation.

In 2013, we were met by lower metals prices and rising costs. Management successfully took action to reduce costs which is reflected in the financial results, but these conditions highlighted the challenges at our current operations. Alongside our optimisation programme, we initiated an asset review in order to improve the profitability of our existing copper assets and it became clear that more significant and structural change is required.

Health and safety remains a key focus for the Board. I am disappointed to report that there were 18 fatalities in 2013. Improvements continue to be made and the positive impact of several measures introduced in the prior year has proved sustainable through 2013, but we remain a long way from our target of zero fatalities. All fatalities are unacceptable and avoidable and the Board will continue to demand significant improvement in health and safety.

Over the past 12 months we sold our three non-core businesses. Completing these transactions will realise a total of \$2,179 million in cash and will significantly benefit our balance sheet.

The first disposal was MKM, a downstream copper business based in Germany. MKM was a profitable business, but did not fit with our focus on mining in Central Asia. The disposal was completed in May 2013 for €42 million in consideration, including €12 million on a deferred basis. We also received a dividend of €10 million from MKM during the year.

Kazakhmys was the largest single shareholder in ENRC, with a holding of 26%. ENRC, which is principally involved in mining bulk metals in Kazakhstan, had seen its share price weakened by a number of factors and in April 2013 a consortium was formed by

the Government of Kazakhstan and the three founder shareholders of ENRC, with the intention of buying the outstanding shares of ENRC and taking the company private. The consortium offered ENRC shareholders a mixture of cash and Kazakhmys shares, the latter coming from the Government's holding in Kazakhmys.

The Board of Kazakhmys was concerned about corporate governance and the financial outlook for ENRC. With the Board's recommendation, and following the approval of independent Kazakhmys shareholders, we accepted the offer for our 26% holding in ENRC. In exchange for our holding we received \$875 million in net cash proceeds and 77 million Kazakhmys shares, which have been cancelled.

The performance of our investment in ENRC was disappointing, but this transaction was considered the best available option to realise the value of such a large and illiquid stake. The cancellation of the Kazakhmys shares received, representing 14% of our shares in issue at that time, has significantly changed the share register and Kazakhmys now has a majority free float of 57%. We are the first of the newly listed resource companies on the London Stock Exchange to have reached a majority free float. The reduction of the shares in issue will enhance future returns to shareholders.

In early 2013, we announced that we were looking at the potential disposal of our 50% holding in Kazakhstan's largest power station, Ekibastuz GRES- I. The disposal of Ekibastuz GRES- I was approved by shareholders shortly after the year end and will result in net proceeds of \$1.25 billion, compared to an effective purchase price for the assets sold of \$580 million.

The refurbishment of Ekibastuz GRES- I was progressing well, but the sale was considered to be in the best interest of shareholders. With the profits from Ekibastuz GRES- I being reinvested back into its refurbishment, dividends to Kazakhmys were deemed unlikely in the medium term and there was uncertainty over the tariff regime beyond 2015.

These three disposals allow management to focus solely on our core copper business, increase the efficiency of our existing assets and deliver our growth projects.

Over the past few years, a combination of declining grades, cost inflation and lower commodity prices has put significant pressure on our profitability and cash generation. In response to the pressure on margins and the future spend on the Group's major growth projects, we commenced an optimisation programme and asset review, including a re-assessment of the Group's integrated model. The objective was to achieve sustainable positive cash flow from our existing operations focusing on profitable production rather than volume targets.

Actions to improve efficiencies in the second half of 2013 resulted in annualised net cost savings of approximately \$120 million. There were also reductions in sustaining capital expenditure and these measures will be continued and extended in 2014.

The Board believes that a number of mature assets, primarily in the Zhezkazgan and Central Regions, will struggle to meet their own ongoing investment needs and contribute to overall cash flow. The prospect of successfully optimising and investing in these assets may be limited whilst they remain under the Group's ownership, and they do not fit within the Group's strategy of production dominated by large-scale open pit mines.



The Group is therefore reviewing the feasibility of separating these assets into a separate corporate entity with a view to potential disposal. Vladimir Kim has indicated he will consider creating a vehicle, owned by him personally, to hold these assets. His knowledge of the assets, understanding of the operating environment and standing in Kazakhstan makes this the most feasible route to exit from these operations. Discussions on such a transaction are at a preliminary stage. Should this disposal proceed, it would be reviewed by the independent Directors of the Board, and, as a related party transaction, be subject to the approval of independent shareholders.

A restructuring of this nature would base the Group on the existing assets in the East Region, along with Bozymchak and the major growth projects. The East Region contains four higher grade mines which combine well with the development period of the major projects.

Further statements on the progress of the proposal will be made as and when appropriate.

The delivery of our two current major growth projects at Bozshakol and Aktogay is central to the Group's transformation and we have implemented some significant changes at the projects during the year.

Most of the critical development targets at Bozshakol have been met to date, but there were concerns over the principal contractor's ability to maintain satisfactory progress.

In December 2013, we appointed Non Ferrous China as a second contractor at Bozshakol. The appointment of Non Ferrous China gives the Board greater confidence that the timetable will be maintained and that the project will commence as planned in 2015. There is additional cost of \$350 million arising from the change, but this should secure the start-up date, and hence the timing of cash flow generation from the project, thereby avoiding the greater loss of value which would have resulted from a delay.

At Aktogay we are replacing the previous single principal contract with several smaller contracts. There will be a change to the overall project cost, which will only be finalised once all the tenders are complete. We have maintained a start date of 2015 for commencing extraction from the oxide section, but are moving first production from the sulphide section to 2017, spreading the expenditure on the projects.

During 2013, a major copper project, Koksay, became available in Kazakhstan. Koksay is consistent with our strategy of future production from a small group of large scale, low cost, open pit mines, is in our key operating area and should provide attractive long-term returns. The Board has accordingly approved the potential purchase of this project for \$260 million, of which \$65 million will be deferred. Significant development expenditure will not be incurred until after Bozshakol has commenced production. The transaction is intended to be completed shortly.

The disposal of the non-core assets will reduce strain on the balance sheet. At the year end, there was net debt of \$771 million, equivalent to net funds of \$478 million following the receipt of the Ekibastuz sale proceeds on a pro forma basis. However, holding three major projects with their associated capital spend creates specific risks and the Board is considering partnering options on the major growth projects in order to share some of the risk and reduce the capital requirements.

The performance of our share price in 2013 has been disappointing. The mining sector as a whole has been out of favour, with investors seeking companies that have high levels of cash generation and capacity for dividends, which has encouraged the cancellation of projects and the reduction of capital expenditure across the industry. In addition to the general sector trend, Kazakhmys shares have been impacted by our reduced profit margin, concerns about the profitability of some of our assets and the performance of our holding in ENRC.

The Board believes that the long-term success of Kazakhmys is dependent on improving the cash generation of the underlying business and delivering the major growth projects. This will provide the best return for shareholders and greater stability for all stakeholders. The share price will always be impacted by the performance of metals prices, over which we have no control, but the substantial changes we are undertaking should create significant shareholder value.

Our dividend policy, as set out at Listing, is for the Board to consider the cash generation and financing requirements of the business and then recommend a suitable dividend. This policy maintains flexibility on dividend payments, which is appropriate given the underlying cyclicality of a commodity business. Given the current low level of cash generation from our existing assets, the ongoing asset review and the expenditure on our growth projects, the Board does not recommend a dividend at this time.

Since Listing, Kazakhmys has returned a total of \$2,095 million to shareholders, in ordinary and special dividends and share buy-backs. Such a level of return compares favourably within the sector. When the outcome and delivery of the restructuring is clearer, and as Bozshakol moves into commissioning, then returning funds to shareholders will be a key consideration.

In my first year as Chairman I should like to thank my fellow Directors and senior executives for their support. In particular, I should like to thank Vladimir Kim for his assistance in the handover of the Chairman's role and for his continued support and commitment to Kazakhmys. My appointment as independent Chairman ensures that the Group now fully complies with the requirements of the UK Corporate Governance Code. The Board has always placed a high emphasis on good governance. Governance is not a simple task, but a continuous journey and one to which we remain committed.

It is clear that 2014 will be a demanding but significant year for Kazakhmys. We firmly believe there is a positive outlook for copper, a metal which is fundamental to economic development and which has a constrained supply in the long term. The new Kazakhmys, of predominantly large scale, low cost, open pit mines in Central Asia, will be in a strong position to take advantage of these markets and I look forward to updating shareholders as we progress through the year.

Simon Heale
Chairman

Delivering improvement



Oleg Novachuk, Chief Executive

This review covers a period of significant change. We delivered three corporate transactions in 2013, allowing us to focus on our copper mining business in Kazakhstan. We are likely to see further transformation in 2014, moving towards our strategic goal of copper production from a core of large scale, low cost, open pit mines.

Regardless of changes in the business, we remain focused on improving our health and safety performance. In 2013, there were 18 fatalities. The progress we are making is slower than we would like, but encouragingly we are seeing improvements in some of the identified core risk areas. Fatalities resulting from rock fall have reduced compared to the previous year and we are seeing better risk assessments at our underground operations. We will continue to focus on improving our performance in other hazard areas, for example in transport safety, working at heights and when handling heavy machinery.

In 2013, we produced 294 kt of copper cathode equivalent from own material. Finished copper output was slightly higher than the previous year and was at the top of the range we set at the start of 2013. We successfully targeted additional copper output, in order to mitigate costs, and we will maintain this strategy in 2014. This was the sixth consecutive year in which we met our production targets and I would like to thank my colleagues for their hard work in achieving this.

Within our principal by-products, output of zinc and gold both declined through a combination of lower ore output and grade, although in both cases the decline was less than anticipated and production remained ahead of target. Silver output had a strong year, benefiting from a release of work in progress and higher recovery rates.

Sales of copper products at 312 kt were 16 kt higher than production, lifted by a reduction in finished goods and the processing of work in progress arising from the suspension of the smelter at Zhezkazgan.

Copper production in 2014 will be in line with the guidance for 2013, or between 285 and 295 kt. Zinc and silver output will decline to around 120 kt and 11,000 koz, respectively. Gold will increase to 125 koz, assisted by the commissioning of Bozymchak.

Metals prices remained under pressure in the soft economic climate. Copper continued to perform relatively well, with the LME cash

price averaging \$7,328 per tonne in 2013, 8% below the 2012 average. Precious metals were considerably weaker, with average LBMA gold and silver prices declining by 15% and 24%, respectively, as concerns over global financial instability retreated and lessened their attractiveness as 'safe havens'.

Mining revenue declined by 9% to \$3,058 million, due to lower metals prices, partly offset by higher copper sales volumes. Revenue in 2012 was assisted by additional gold sales which were held over from 2011.

Cash management was a key focus of attention in 2013, seen in both operating costs and capital expenditure. Cash operating costs increased by 7%, and were impacted by higher sales volumes. This level of increase was an achievement given the higher volumes of ore mined and processed, the salary increases awarded in mid-2012 and some inflation in input costs. Evidence of the action taken is seen in the reduction in costs in the second half of the year compared to the first six months of 2013.

Gross unit cash costs benefited from the additional sales volumes and declined to 328 US cents per pound. Excluding these additional volumes, the gross unit cash cost was 334 US cents per pound, in line with 2012, and below both the initial target for the year of 347 to 360 US cents per pound and the revised mid-year target of 337 to 347 US cents per pound.

Costs in 2014 will benefit from the devaluation of the tenge on 11 February 2014, although offset by some consequent inflationary pressure. We will also incur additional taxes on salary costs, and higher refining charges for the processing of copper concentrate sold to China. The refining charge is deducted from the sales price and reduces revenue, but we will include it in our unit cost calculation in keeping with industry practice. The target range for costs in 2014 will therefore be 315 to 330 US cents per pound.

The combination of lower revenue and increased costs in 2013 led to a 39% decline in EBITDA for the Mining Division to \$705 million.

Due to lead times, capital investment can be less flexible than operating expenditure, however, sustaining capital expenditure in the Mining Division in 2013 was reduced to \$422 million, including some one-off costs, compared to \$603 million in 2012. In 2014, we will maintain control over sustaining capital expenditure with spend of between \$350 and \$450 million.

We suspended activity at several mid-sized projects, with continuing work focused on studies to lengthen the life of Artemyevsky mine. Development capital expenditure will be around \$30 million in 2014. The main emphasis for capital expenditure will be on the major growth projects, discussed below, at \$750 to \$950 million for Bozshakol, \$450 to \$650 million for Aktogay and \$10 million for Koksay.

Group EBITDA was \$1,149 million in 2013. Due to their disposal, MKM, ENRC and Ekibastuz GRES-1 are only included for part of the year. Their disposal and related financials are covered extensively in the Financial Review.

In the circular distributed to shareholders on 12 July 2013, we stated our intention to manage the Group's existing core copper operations to generate sustainable positive cash flow. The actions we have taken to reduce costs and sustaining capital expenditure are positive, but as set out in the Chairman's Statement it has become apparent that more significant changes are required.

The restructuring being reviewed will result in the operations of the Group consisting of the four mines in the East Region,



along with the three associated concentrator facilities, Bozymchak mine in Kyrgyzstan, and the major growth projects. East Region accounts for around 28% of our copper in concentrate output, 41% of gold, 36% of silver output and all of our zinc in concentrate. It includes around 12% of the Mining Division workforce and 11% of total ore output, with an average copper grade of 2.41%.

Although modest in output, the cash generation of the East Region assets will put the Group in a strong position to move through the development phase of the major growth projects.

It is being considered that the mines in Zhezkazgan and Central Regions, along with captive power, smelting and refining, will become part of a separate corporate entity. With further investment and potential Government support, the life of these mines could be extended but this is challenging with the Group's current funding capability and the returns are unlikely to be compatible with the demands of a listed company and external shareholders. We have recognised an impairment charge of \$670 million, largely due to the challenging economic outlook for certain assets, particularly in the Zhezkazgan Region.

A restructuring of this nature would be highly complicated, especially for a Group that has been so fully integrated. The division and management of central and shared services will require careful planning in order not to disrupt production and to ensure a stable base for both entities in the future.

In 2013, with the suspension of our smelter in Zhezkazgan we recommenced the sale of copper in concentrate and increased the proportion of our sales to China. In 2014, around 40% of our copper sales will be in the form of concentrate. Copper in concentrate is sold at a lower price to cathode, reflecting the cost of smelting and refining to the customer, but this reduction is offset by removing the operating costs and sustaining capital expenditure of the smelter complex.

The completion of our major growth projects is central to the success of Kazakhmys, providing long-term supply from large scale, low cost, open pit mines. At Bozshakol, several key milestones were met in 2013, with the delivery of the main milling equipment, the enclosure of the main processing building ahead of the winter period and some major support infrastructure and earthworks.

As previously mentioned, we appointed a second contractor at Bozshakol, which led to an increase in the overall budgeted cost for the project of around \$350 million, however the appointment of the additional contractor will provide greater assurance that the project remains on track for first production in 2015.

Aktogay has been covered in the Chairman's Statement, however, in 2014 we will continue with the infrastructure activities, bulk earthworks and preparations for buildings.

The Chairman's Statement mentions the proposed acquisition of Koksay, a third major project, which will come into development after the existing two projects have been commissioned. Koksay is in southeastern Kazakhstan, close to the Chinese border and is well located for existing infrastructure. It has a total resource of around 3,440 kt of copper, at an average grade of 0.48% and the deposit also contains silver and gold. In 2014, expenditure will be restricted to around \$10 million, principally on additional drilling. No significant expenditure will be incurred until the major projects are producing.

At 31 December 2013, the Group had net debt of \$771 million. This is before the receipt of \$1.25 billion for Ekibastuz GRES-1. Spending on the growth projects in 2013 was lighter than anticipated, although this expenditure will transfer into 2014 and 2015. In 2014, we anticipate total capital spend of up to \$2 billion, of which up to \$1.6 billion is for the major projects.

The management of cash will continue to be a key focus for management. Our growth projects are securely funded from our two long-term debt facilities. The disposal of our non-core assets will greatly strengthen the balance sheet. The funds held will reduce the future borrowing requirements of the Group and could be used to repay existing facilities if so required.

Market analysts have concerns about excess supply of copper from 2013 to 2015, as several large projects enter commissioning. Experience shows, however, that global supply growth is generally lower than anticipated and output from historic assets will continue to decline. Demand for copper should benefit from a recovery in global growth and long-term prospects for copper are excellent.

With the disposal of the non-core assets, the improved management of costs and the emphasis on additional production, we have moved the Group a considerable way forward. We will now continue to consider our proposed restructuring, at the end of which Kazakhmys could be a remarkably different group, centred around three major growth projects and a core of cash generative producing assets. The outlook for copper remains positive and, as a simplified group focused on copper, I believe we can approach the future with increasing confidence.

Oleg Novachuk
Chief Executive

Optimisation and growth

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 aim is to develop Kazakhmys into a leading natural resources company in Central Asia, for the benefit of all stakeholders.

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 around 56,000 workers with substantial social investment, reflecting the close and historic links with the communities serving our operations.

For more information see pages
20 Corporate Responsibility Overview
53 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
18 Risk Management Overview
48 Principal Risks

Key Performance Indicators

The Board has established 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
12 Key Performance Indicators
20 Corporate Responsibility Overview

Our vision

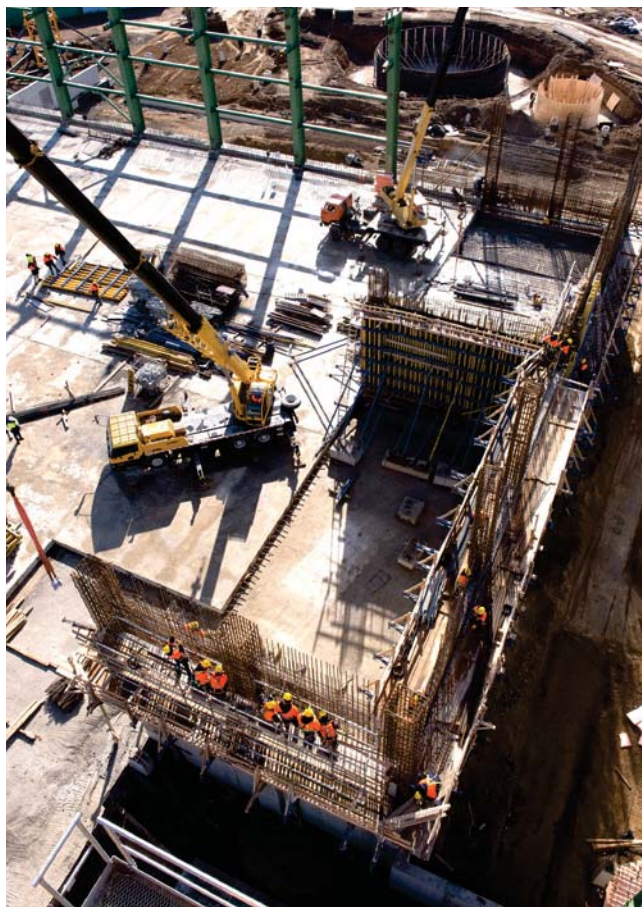
To develop ourselves as a leading natural resources company in Central Asia, combining international standards with the exceptional mineral opportunities available in the region.

Our objective

To deliver value for our shareholders with a strong commitment to the safety of our employees, the environment and the communities around us.

Relevant KPIs

- Free Cash Flow
- Earnings per share based on Underlying Profit
- Fatalities and LTIFR



Our strategic priorities

1

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.

Relevant KPIs

- Project status

Relevant risks

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

Progress

- Major milling equipment was delivered to Bozshakol and installation commenced
- Major processing building at Bozshakol enclosed ahead of the winter season
- Commenced recruitment of operational workforce for Bozshakol
- Appointed second contractor at Bozshakol. Secures timeline but increases capital cost
- Approved potential purchase of third major project site, for future development
- Suspended mid-sized project development as part of optimisation programme and asset review

2014 Priorities

- Continue development at Bozshakol and Aktogay
- Commissioning of Bozymchak

2

Optimise existing assets

Rising costs create significant challenges 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. We are also considering more significant changes to our operating structure.

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
- Commodity prices
- Reserves and resources
- Change management
- Labour and community relations

Progress

- Optimisation programme and asset review
- Significant improvement in cost management, ahead of annual target
- Reduced sustaining capital expenditure in copper business by \$181 million

2014 Priorities

- Continue to focus on improved cash generation with tight control of operating costs and sustaining capital expenditure
- Further review of potential restructuring

3

Take advantage of natural resource opportunities

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

Relevant risks

- Acquisitions and divestments
- Liquidity

Progress

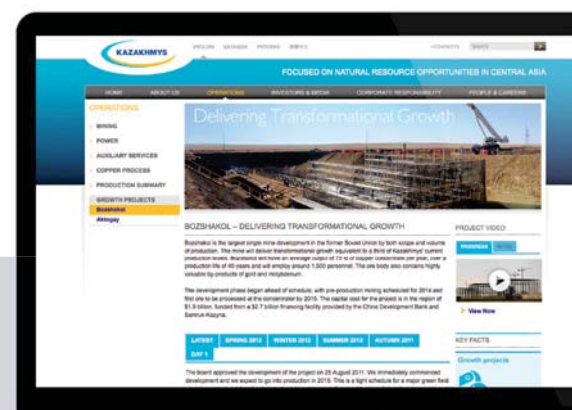
- Disposal of non-core assets in 2013 to focus on copper operations
- Approved potential purchase of third growth project

2014 Priorities

- Existing assets and growth projects will take precedence
- Consider partnership at major growth projects



For the latest news, video case studies and progress of reports on our major growth projects visit:
www.kazakhmys.com/en/operations/growth_projects



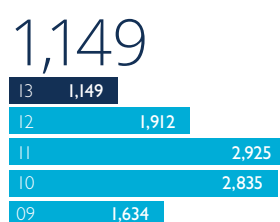
Measuring our progress through KPIs

The Group monitors performance against a set of Key Performance Indicators with the aim of delivering its strategic objectives, as set out on page 11.

Objectives

Deliver value for our shareholders

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



Relevance

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

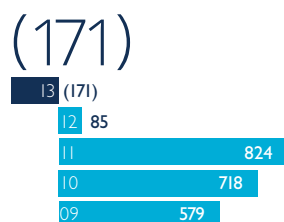
How we measure

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 EBITDA section of the Financial Review on page 38.

2013 Performance

Group EBITDA decreased by 40% to \$1,149 million as revenues declined due to lower realised prices for the Mining Division's key products. Operating cash costs were higher due to an increase in ore volumes and inflationary pressures. The EBITDA contribution from ENRC fell by 50% to \$276 million, as the Group's share of EBITDA was only for six months compared to a full year in 2012. The EBITDA contribution from Ekibastuz GRES-I declined by 19% as the power station's results were also impacted by a shortened period to 5 December 2013, compared to a full year in 2012, and lower revenues.

Free Cash Flow (\$ million)



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.

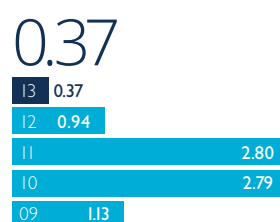
How we measure

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

2013 Performance

Free Cash Flow decreased by \$256 million to an outflow of \$171 million in 2013, primarily due to the lower EBITDA from the Mining Division, higher interest payments during a phase of increased debt levels to finance investment in the major growth projects and no dividends being received from ENRC or Ekibastuz GRES-I.

Earnings per share based on Underlying Profit (\$)



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, divided by the weighted average number of ordinary shares in issue during the year.

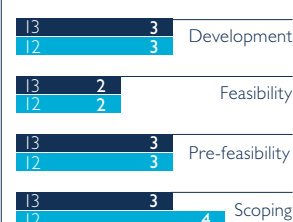
2013 Performance

EPS decreased by 61% to \$0.37 per share reflecting the lower profitability of the Mining Division as well as the higher relative impact of mineral extraction tax on the lower profit. The reduced share of profits for the six month period from ENRC also contributed to the fall in EPS. These factors were partially offset by a decrease in the weighted average number of shares in issue due to the 77 million Kazakhmys PLC shares received from the ENRC disposal in November 2013, which were subsequently cancelled.

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.

2013 Performance

The Bozshakol, Aktogay and Bozymchak projects remain under development. Bozshakol is on target to commence copper concentrate production in 2015, while the production from the Aktogay oxide ore is planned for 2015 and output from the sulphide ore is scheduled for 2017. Production from Bozymchak is expected in the first half of 2014. In 2013, the Mining Division reviewed its mid-sized projects to scale back capital expenditure requirements while the major growth projects are developed. As a result, the Akbastau concentrator, South East Nurkazgan, Anissimov Klyuch, Zhaisan and Zhomart II projects have been suspended. Study work is progressing on the Artemyevsky mine extension project which is at the pre-feasibility study stage.



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 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.

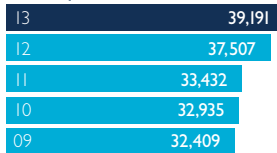
KPIs specific to corporate responsibility are reported in the Corporate Responsibility Overview on page 21.

Strategic priorities:

Optimise existing assets

Ore Output (kt)

39,191



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

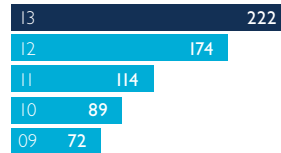
Number of tonnes of ore extracted from our Mining Division, excluding output from the Bozymchak mine and mines in the former Gold division: Central Mukur and Mizek.

2013 Performance

Ore output was 4% above the prior year with a full year of production from the open pit Konyrat mine and higher production from the West Nurkazgan mine. Whilst ore production volumes rose in 2013, the focus remained on profitable production across the Mining Division's three regions, in particular the Zhezkazgan Region, where ore output from low grade zones was restricted.

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

222



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

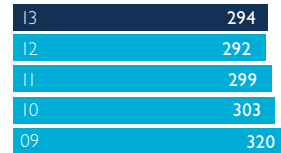
The total of cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathode equivalent sales.

2013 Performance

The cash costs of copper sold after by-product credits rose by 28% to 222 US\$/lb, due to the growth in operating costs with higher ore extraction volumes, inflation and the full year effect of salary awards during 2012. The cash cost metric was also negatively impacted by a decrease in by-product credits mainly due to lower realised prices for gold and silver along with lower sales volumes of gold products. These factors were partially offset by the 11% increase in copper cathode equivalent sales volumes with a release of finished goods in 2013 compared to the build-up of stock in 2012.

Copper cathode equivalent production from own material (kt)

294



Relevance

Copper, the Group's principal product, represents 74% of the Group's revenues and is the main operational indicator. The price of copper is set by the market and is not, therefore, a KPI.

How we measure

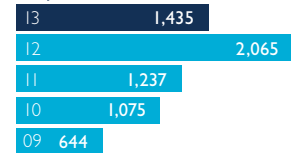
Copper cathode equivalent produced from own ore either as refined copper cathodes or as recoverable copper in concentrate or residues sold.

2013 Performance

Copper cathode equivalent production was at the top end of the 285 to 295 kt range set at the start of the year. Copper cathode equivalent production from own material of 294 kt was 2 kt above the prior year despite the 2012 production volumes benefiting from a large release of work in progress at the smelters. The production volumes in 2013 included a 31 kt contribution from the sale of copper in concentrate following the suspension of the Zhezkazgan smelter in the second half of 2013.

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

1,435



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 equivalent production volumes from our own material.

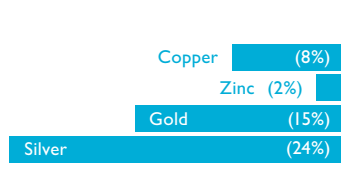
2013 Performance

Maintenance spend per tonne was 31% below the prior year at \$1,435 per tonne, with a number of measures successfully introduced as part of the optimisation programme and asset review to limit the capital spend required to sustain the Group's operations. Capital expenditure in 2013 included \$83 million for non-recurring mine development projects and concentrator improvements, several of which were carried forward from 2012.

Market Overview

The pricing environment for the Mining Division's copper products and key by-product metals was weaker in 2013, with the average prices for all the Group's major metals below the prior year.

Average price movement in 2013¹



¹ Average price quoted on the LME and LBMA exchange compared to 2012.

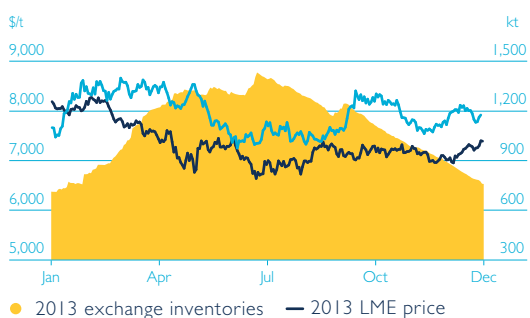
Source: Bloomberg

Copper

At the start of 2013, the expectation for the copper market was for the supply surplus reached in 2012 to expand further as the growth in output outpaced the growth in demand. Despite this, the LME copper price started 2013 relatively strongly, averaging around \$7,900 per tonne in the first quarter of the year, supported by positive sentiment on the outlook for Chinese demand.

A sustained build-up of copper inventory at global exchanges, the uncertainty over the speed of tapering of the US Federal Reserve's monetary stimulus measures and concerns around credit availability in China led to the copper price falling sharply in the second quarter of 2013, reaching a low of \$6,638 per tonne in June 2013.

Copper price and exchange inventories



Source: Bloomberg

During the second half of 2013, the copper price stabilised due to a combination of positive economic indicators on the health of the global economy, central banks adopting a cautious approach to the tightening of monetary policy and stronger than expected demand from China. Copper inventories at global exchanges fell during this period and ended the year marginally above the balances observed at the start of 2013. Overall the LME cash price for copper averaged \$7,328 per tonne in 2013, 8% below the average for the metal in 2012.

The fundamentals for the global refined copper market remained tight with a small supply surplus of 0.2 MT recorded in 2013. Estimated global refined copper production of 20.9 MT was below the level forecast by some analysts due to the limited availability of copper scrap material. Global refined copper production was 4% above the prior year, a reflection of the growth in output from mines, in particular brownfield extensions and as mining operations suffered less severe outages than in previous years.

Global refined copper consumption (kt)

15	22,778
14	21,755
13	20,702
12	19,605
11	19,606
10	19,174

● Estimate ● Actual

Source: Wood Mackenzie Long Term Outlook December 2013

Refined copper consumption is estimated to have grown 6% to 20.7 MT in 2013, assisted by continued strong demand growth from China. Demand for refined copper in Germany and the United States also increased, despite a decline in industrial output in Europe and a lower level of industrial output growth in the United States in 2013.

Kazakhstan's largest market for the sale of copper products is China, the world's leading consumer of refined copper. In 2013, China accounted for 44% of global consumption, well ahead of the second largest consumer country, the United States, at 9%. Chinese copper consumption has remained strong with a 12% increase in refined consumption forecast in 2013. Demand from all of the key end use sectors in China such as electrical infrastructure, construction and consumer durables, increased during the year.

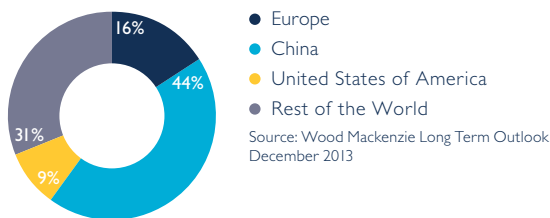
In 2014, the supply of copper from mines is predicted to increase by 11% with growth from greenfield and brownfield expansion projects in Central Africa and Asia along with the ramp up of mine expansions at existing operations in Chile. Chinese refined copper consumption is expected to grow by a further 7%, supporting global demand for copper in 2014. Overall, a supply surplus of around 0.4 MT in the global refined copper market is anticipated for 2014 which equates to 2% of total global consumption.



Following the suspension of the Group's smelter in Zhezkazgan, around 40% of copper product sales in 2014 will be in the form of copper concentrate to smelters in China. The majority of the copper concentrate sales will be made under annual sales contracts with a payable rate of 96.5% for copper and 90% for the silver metal included in the concentrate. The treatment and refining charges for the copper concentrate have been set at the annual benchmark. Pricing for the metal in the concentrate is referenced to the LME, together with an additional charge reflecting the current concentrate supply surplus to Chinese smelters.

Kazakhmys Mining has annual sales contracts in place for the majority of its copper cathode production in 2014. Around 85% of the contracted copper cathode sales will be directed to Asia, principally China. The remaining contracted volumes will be sold into the CIS market. The pricing of copper cathode sales is based on the LME price plus a premium to reflect the terms of trade. In 2014, premiums on contracted cathode sales to China have increased with the escalation of Codelco's annual Chinese premium, reflecting strong Chinese demand.

2013 global refined copper consumption



Zinc

The LME zinc price averaged \$1,908 per tonne in 2013, marginally below the average price in 2012. The zinc price movements were broadly consistent with the copper market in 2013, starting the year relatively strongly before prices declined due to uncertainty over future demand levels.

The refined zinc market is forecast to have recorded a supply deficit of 0.1 MT in 2013, which equates to around 1% of total global consumption, marginally below the supply deficit of 0.4 MT in 2012. The lower supply deficit was mainly due to a 6% increase in zinc production from smelters in China, with zinc output from mines only 2% above the prior year.

In 2014, the refined zinc market is forecast to remain tight, with supply growth expected to return the market back to a balanced position. The zinc market will however be highly dependent on China, which accounts for 45% of total global zinc demand.

Kazakhmys Mining has concluded its annual zinc concentrate contracts for 2014 and will sell the majority of production within the CIS, with the remaining output supplied to Chinese customers. Pricing will be based on the LME price for zinc less processing charges which are set on an annual basis.

Precious metals

Gold

The LBMA gold price averaged \$1,411 per ounce in 2013, 15% below the average price in the prior year. Gold finished 2013 at \$1,205 per ounce, a 27% fall from the traded price at the start of the year. Gold benefited from its status as a 'safe haven' asset during the global economic downturn and this was the first sustained decline in gold prices for a number of years.

The gold market is mainly supported by jewellery and investment demand. As yields from equity markets and US Treasury bonds improved during 2013 investment demand for the precious metal declined, particularly in the second quarter of the year. This was reflected in the gold exchange-traded funds where volumes fell significantly during 2013. The prospect of the tapering of the US Federal Reserve's monetary stimulus measures also negatively impacted investor sentiment towards the metal.

Investor sentiment around the tapering of the US Federal Reserve's monetary stimulus, the US dollar, and inflation expectations are expected to influence gold prices in 2014.

In 2014, 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 LBMA silver price averaged \$23.79 per ounce in 2013, 24% below the average price in the prior year. Silver finished the year at \$19.50 per ounce, a 37% fall from the start of 2013.

While the silver market is mainly supported by industrial demand, the silver price is influenced by investor sentiment. Industrial demand for silver was marginally above the prior year but negative investor sentiment towards silver was reflected in the lower prices in 2013. As with gold, the improved yields in other asset classes and the prospect of the tapering of the US Federal Reserve's monetary stimulus had a negative impact on prices.

Similar to gold, investor sentiment is likely to have a significant influence on silver prices in 2014.

Kazakhmys Mining will sell its 2014 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.

Non-core disposals strengthen the balance sheet

In 2013, Kazakhmys completed the disposal of its investment in ENRC and agreed the sale of its 50% holding in the Ekibastuz GRES-1 power station, which together will generate cash proceeds in excess of \$2 billion and focus the Group on its core mining operations and growth projects.

Copper revenues were in line with 2012 as higher copper cathode equivalent sales volumes compensated for lower realised prices, following an 8% fall in the average LME price. The 11% increase in copper cathode equivalent sales volumes was attributable to a reduction in finished goods inventory. By-product revenues declined, as sales of gold in 2012 benefited from the sale of inventory accumulated in the second half of 2011, and realised prices for gold and silver by-products were lower.

Segmental EBITDA was 36% below the prior year as revenues fell by 8% and cash operating costs at the Mining Division rose by 7%. Cost increases were driven by inflationary pressures and a 4% increase in ore extraction. Cash operating costs fell in the second half as the cost optimisation programme and asset review took effect.

The gross cash cost of copper was 328 US cents per pound in 2013, 1% lower than in 2012.

The net cash cost of copper increased to 222 US cents per pound mainly as a result of the decrease in by-product credits in 2013, which were affected by lower commodity prices for gold and silver and reduced gold sales volumes.

The Group's 50% share of EBITDA of Ekibastuz GRES-1 fell by 19% to \$153 million, reflecting the shortened period to 5 December 2013, when the Group accepted an offer for its sale, compared to the full year in 2012, lower sales volumes and higher operating costs.

Group EBITDA included \$276 million in respect of the Group's 26% holding in ENRC for the first half of 2013, prior to being reclassified as an asset held for sale at the end of June. In 2012, the contribution from ENRC of \$548 million was for the full 12 months and benefited from higher commodity prices for its major products, iron ore and ferrochrome.

EPS based on Underlying Profit was \$0.37 per share, affected by the reduction in EBITDA. In addition, the Group's all-in effective tax rate, which includes MET but excludes special items, increased as the relative impact of MET and expenses which are non-deductible for tax was more pronounced on the lower profit.

During the year, the Group recognised an impairment of its investment in ENRC of \$823 million. A review of assets is ongoing, and an impairment of \$575 million (including \$98 million of tax assets) has been recognised in respect of the Zhezkazgan Region, reflecting

\$ million (unless otherwise stated)	2013	2012
Revenues	3,099	3,353
Segmental EBITDA (excluding special items)	873	1,364
Group EBITDA (excluding special items)	1,149	1,912
EPS based on Underlying Profit (\$)	0.37	0.94
Net cash cost excluding purchased concentrate (USc/lb)	222	174
Free Cash Flow	(171)	85
Net debt	(771)	(707)

management's assessment of the challenging economic outlook for the Region. A further \$193 million impairment charge relates to specific assets and medium-sized projects which have been suspended or subject to a change in intended use. These impairments have been treated as special items and excluded from Underlying Profit.

Free Cash Flow was a negative \$171 million, which includes interest payments of \$156 million. Management successfully took measures to control operating costs and reduce sustaining capital expenditure, however Free Cash Flow was impacted by reduced profits and no dividends being received from ENRC or Ekibastuz GRES-1.

Capital expenditure on the major growth projects, Bozshakol and Aktogay, increased from \$458 million in 2012 to \$660 million in 2013.

In May 2013, the sale of MKM, a downstream copper processing plant in Germany, was completed for proceeds of \$55 million. The disposal of the Group's 26% holding in ENRC was completed in November 2013 for total net proceeds of \$1,194 million, comprising \$875 million in cash and 77 million Kazakhmys PLC shares, which were subsequently cancelled. Shareholder approval was received in January 2014 for the disposal of the Group's 50% share in Ekibastuz GRES-1 for net proceeds of \$1,249 million.

The final \$200 million was drawn down on the \$2.7 billion CDB Samruk-Kazyna facility, primarily for the Bozshakol project, and repayments of \$107 million were made in 2013. In January 2014, a further \$400 million was repaid early in respect of part of the Samruk-Kazyna facility reserved for two medium-sized projects, which are not expected to proceed in the near term. \$57 million was drawn down on the \$1.5 billion CDB facility for the Aktogay project, leaving a further \$1.4 billion available to be drawn. The five year PXF facility was \$500 million drawn by the year end when the availability period expired. The liquid funds of the Group amounted to \$2.3 billion compared to \$1.8 billion at 31 December 2012 and are mainly held in the UK.

The Group's net debt at 31 December 2013 was \$771 million compared to \$707 million at 31 December 2012. After receipt of the \$1.25 billion net proceeds from the Ekibastuz transaction, on a pro forma basis at 31 December 2013, the Group would return to a net funds position of \$478 million.

The disposal proceeds will mainly be used to strengthen the balance sheet during a period of significant capital investment in the construction of the major projects. The funds held will reduce the future borrowing requirements of the Group and could be used to repay existing facilities if so required.

In 2013, Kazakhmys agreed the sale of its remaining non-core assets, strengthening the Group's liquidity. The asset review will continue in 2014 and, if the transaction to transfer the Zhezkazgan and Central Region assets into private ownership is successful, will result in more profitable and cash generative operations. The improved liquidity and cash flows will provide a solid platform for the delivery of the growth projects, with Bozshakol to launch in 2015.



For more information see pages

10 Our Strategy

30 Operating Review

38 Financial Review

Our Divisions

Mining

39.2 MT
of ore produced

0.99%
of copper grade

The Mining Division achieved its production targets for 2013, with copper cathode equivalent output of 294 kt and strong gold, silver and zinc output.

Total ore output was 4% above the prior year with a full year of production from the open pit Konyrat mine which re-commenced operation in July 2012. Production was also higher at the West Nurkazgan mine which benefited from the upgrade of its ore transportation system. During the year, the focus was on profitable production and ore output at the lower grade zones in the Zhezkazgan Region reduced.

Copper grades rose from 0.95% in 2012 to 0.99% in 2013, improving the Mining Division's cash flows with the extraction of higher content material particularly in the Zhezkazgan Region. The higher grades offset the impact of incremental production from the low grade Konyrat mine.

Overall copper in concentrate output in 2013 was 10.9 kt above the prior year at 314.6 kt, due to the combination of higher ore output and copper grades. Copper cathode equivalent production volumes of 294 kt were slightly above the prior year which benefited from a larger reduction in work in progress at the smelters.

The production of by-products, which contributed around 26% of the Mining Division's revenues in 2013, was ahead of the guidance provided for the year. Compared to the prior year, zinc in concentrate output fell by 17.5 kt to 134.1 kt due to lower ore extraction and grades at the Artemyevsky mine. In respect of precious metals, silver product output of 14,348 koz was 14% above the prior year benefiting from a release of work in progress. Gold production decreased by 17% to 107.5 koz with the lower volume of gold extracted at the Artemyevsky and Abyz mines.

Significant changes were made to the Mining Division's operations in 2013 as part of the optimisation programme and asset review. The measures taken in 2013 included the suspension of the Satpayev and Berezovsky concentrators to raise utilisation levels. Operations at the Zhezkazgan smelter were also suspended in 2013 and the majority of the copper concentrate output from the region is now sold directly to customers, predominantly based in China.

Operational improvements were also made during the year and included the reconstruction of the Nikolayevsky concentrator to increase recovery rates and its processing capacity. While the project will complete in the second half of 2014, the concentrator's copper recovery rate has already been substantially improved. Upgrades to the processing capacity of the Balkhash concentrator were made during the year to cater for the additional ore output from Konyrat. Optimisation of the ore transport networks at the Zhomart and West Nurkazgan mines were successfully completed during the year.

Outlook

Copper cathode equivalent production from own material is anticipated to be between 285 kt and 295 kt in 2014, with approximately 40% of the production in the form of copper concentrate sales to third parties. The focus will remain on profitable production in 2014 with ore output and copper grades expected to be consistent with 2013 levels. Production volumes will include initial copper in concentrate output from the Bozymchak mine which is due to commence in the first half of 2014.

Power

18,508 GWh
of net power generated

3,451 MW
of net dependable capacity

The net power generated at Ekibastuz GRES-1 declined by 11% in 2013 due to lower demand in the domestic market and competition from domestic power stations supplying electricity at relatively low tariffs to maintain their sales volumes. The decline in Ekibastuz GRES-1's domestic sales volumes was partially offset by an increase in sales volumes exported to Russia.

Net power generated at the captive power stations during 2013 was above the prior year. Output was assisted by an improved equipment performance and an increase in availability following the enhancements made to the maintenance programmes at the power stations.

Outlook

In December 2013, Kazakhmys announced that it had entered into an agreement to sell its interest in Ekibastuz GRES-1 to Samruk-Energo. The transaction was approved by shareholders on 7 January 2014 and it is expected that the transaction will complete in the first half of 2014, subject to customary regulatory approvals.

Generation volumes at the captive power stations are anticipated to decline in 2014, as turbine replacements and other capital works are conducted. The benefit of these works will be seen in future years as the operational efficiency of the power stations improves.



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 protecting the Group's businesses, people and reputation.

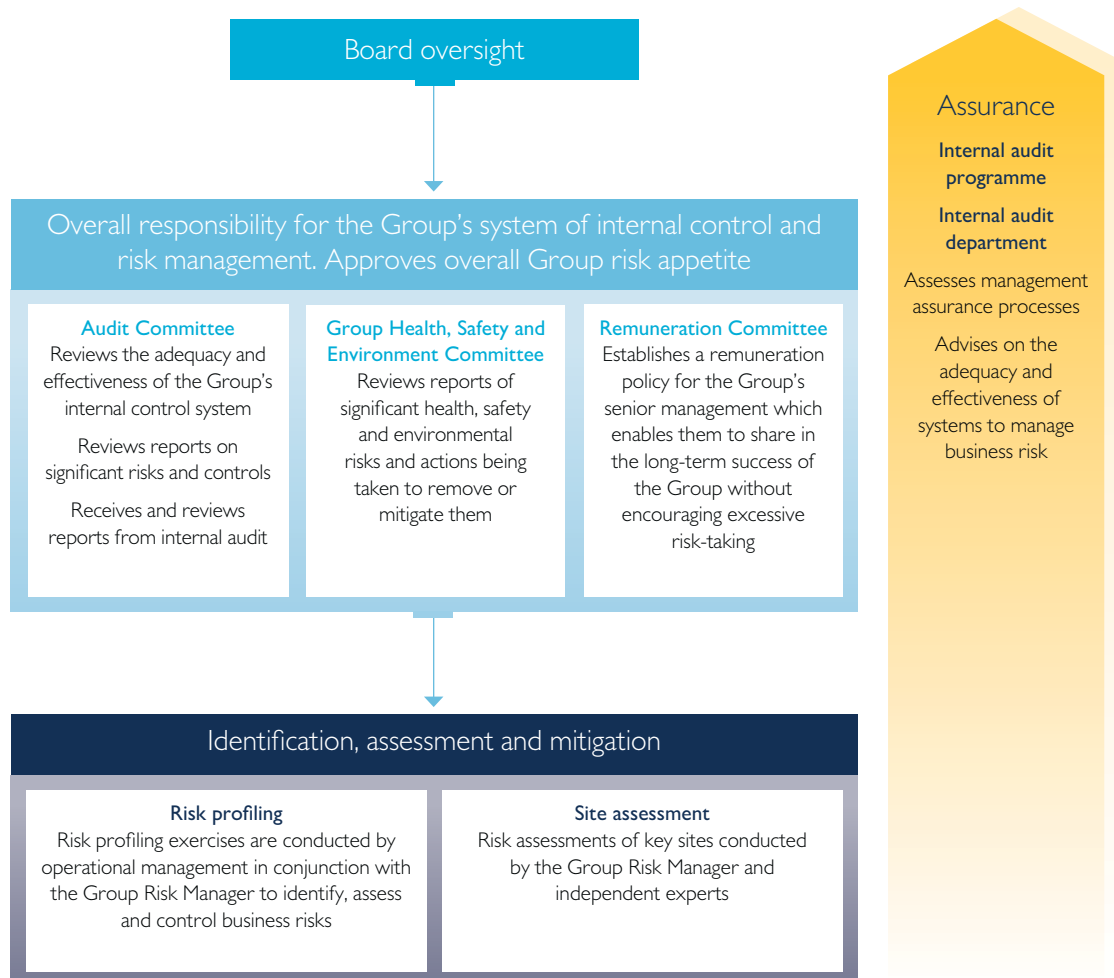
The Group's approach to internal control is business risk driven, with emphasis given to operational, compliance and financial risks. Management have continued to develop the Group's risk evaluation process, with enhanced risk profiling exercises undertaken by operating businesses to identify, evaluate and control risk. Further details of the Group's approach to internal control are set out in the Governance Framework section on pages 66 and 67.

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 and the Projects Assurance Committee having delegated authority for providing assurance on the Group's major growth projects at Bozshakol and Aktogay. The Board has approved a formalised but pragmatic Group risk management framework. This framework is designed to provide assurance that risks are 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 48 to 52.

Risk governance structure





Risk profile

Once the Group's significant risks have been identified, each risk is then assessed by likelihood of occurrence and impact on the Group. Each risk is then placed on to the Group risk map and regularly reviewed to ensure accurate representation as to its 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 on to 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
- Political risk
- New projects
- Change management
- Labour, mining equipment and supplies
- Labour and community relations
- 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

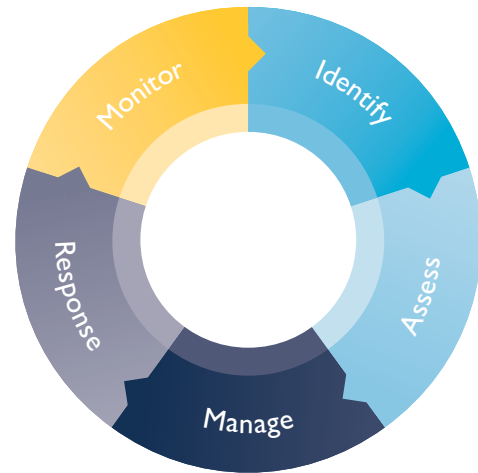
Financial risks

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:

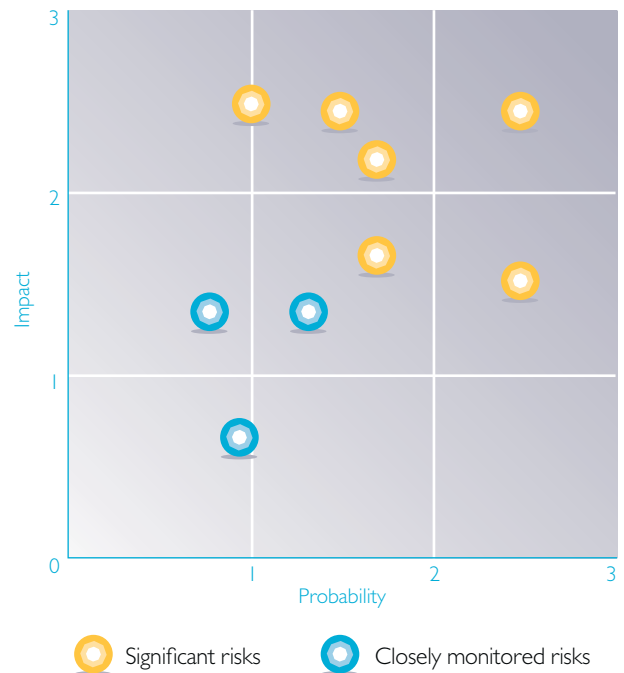
- Commodity prices
- Exposure to China
- Acquisitions and divestments
- Liquidity risk
- Taxation

A full description of our principal risks, including a detailed description, impact and mitigation actions can be found on pages 48 to 52.

Risk management framework



How we profile our risk reporting



A culture of safety and responsibility

This year we saw an improvement in incident reporting and risk assessment at our underground operations, although we have not reached our goal of a complete safety culture transformation. We also continue to upgrade the equipment and introduce other measures to improve our environmental impact.



Eduard Ogay, Executive Director

Message from Eduard Ogay

Underground mining is a hazardous activity and despite increased focus and leadership attention to our health and safety programme, overall results are disappointing. Nonetheless, there are grounds for optimism – the number of fatal incidents from rock fall, previously our single biggest area of concern, halved compared to last year. There is, however, still much to do to make our business as safe as possible at every stage and in every area of our operations.

I regret to report that there were 18 fatalities in 2013, one less than in the previous year. This is a slower improvement than we had hoped, but we remain absolutely committed to achieving and maintaining our zero fatalities goal. Instilling a safety culture remains our priority. In particular, we continue to ensure our employees are well-trained and that contractors working on our sites understand and apply our safety standards.

Our employees have a right to a safe working environment. Kazakhmys recognises all human rights as defined in the Universal Declaration of Human Rights. We are committed to ensuring our operations do not infringe on these rights, for instance by providing fair, safe and secure working conditions in line with the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. We respect the right to freedom of association and consult our employees and trade unions about changes to our business and employment conditions. Local communities are consulted during project development and about major operational changes that may affect them, such as the transfer of ownership of our social facilities to local governments and community groups. We respect and protect local heritage and culture.

It is with great pleasure that we welcomed Lynda Armstrong as a non-executive Director of Kazakhmys PLC in October 2013. Lynda is Chair of the trustees of the British Safety Council and joins the Group Health, Safety and Environment Committee, bringing to bear her years of experience in the extractive sector to help us reach our safety goals. We are proud to sustain a relatively high level of gender diversity for the mining industry, both at management and operational levels. In 2013, 11% of our Board members, 21% of our senior managers and 34% of total employees were women.

We also welcome the Government of Kazakhstan's vision to make the transition to a green economy by 2050, and continue to implement energy efficiency plans and other initiatives to ensure our business plays its part. We look forward to engaging in consultations to ensure our environmental strategy is fully aligned with the Government's proposed approach.

Eduard Ogay
Executive Director



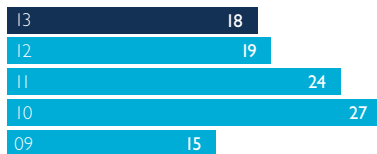


Corporate Responsibility (CR) Key Performance Indicators

Further to the financial and production KPIs on pages 12 and 13, we also report our performance against six CR KPIs that measure our most significant social and environmental impacts.

Number of fatalities¹
(direct employees and contractors)

18



2013 performance

15 employees and three contractors sadly died while working at Kazakhmys this year, compared with 15 and four respectively in 2012. We continue to work hard to prevent further fatalities by strengthening our efforts in our major hazard areas.

Long-term goal

Zero fatalities

¹ From 2011, data on fatalities includes contractor fatalities, data for prior years is for Kazakhmys employees only.

Lost-time injury frequency rate (LTIFR)¹
(direct employees)

1.84



2013 performance

The total number of LTIs has reduced from 174 in 2012 to 172 in 2013, however, there has also been a reduction in total hours worked following the suspension of the smelter in Zhezkazgan and the concentrator in Satpayev, which led to a higher LTIFR.

Long-term goal

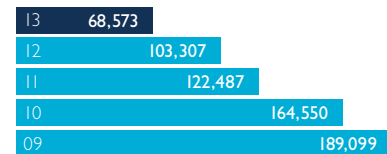
Annual reduction of 10%

¹ Number of working hours lost through injury among direct employees, per million hours worked.

² We have restated the LTIFR figure for 2012 to exclude contractor man-hours at Ekibastuz GRES-1.

SO₂ emissions
(tonnes, Mining Division only)

68,573



2013 performance

Sulphur dioxide emissions reduced by 34% in the Mining Division following the suspension of the smelter in Zhezkazgan in September 2013.

CO₂e emissions
(million tonnes, Mining and Power Divisions)

25.7



2013 performance

Carbon dioxide equivalent emissions reduced by 8% in 2013, reflecting lower production output and power demand. A fuller discussion of our performance is reported on page 55, along with an emissions intensity ratio and details of the methodology used to calculate emissions.

Safety training
(average hours per employee trained)

39

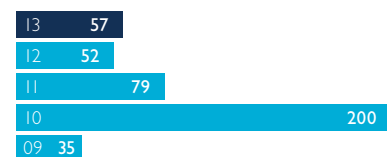


2013 performance

Every employee engaged in operational and high-risk activities receives approximately 40 hours of health and safety training each year. In addition to this, we ran an extensive health and safety training programme together with our external consultants DuPont, which is not reflected in this figure. For more details please see page 53 of this report.

Social investment
(\$ million, Mining Division only)

57



2013 performance

We continue to support local communities and other social projects as part of our obligations under subsoil licences, as well as by providing voluntary sponsorship on an individual basis. Our approach to social investment prioritises projects in education, sports and culture, local infrastructure and public health.

Committed to good governance

The Board is dedicated 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.



Simon Heale, Chairman

Dear fellow shareholder,

I am delighted to present this introduction to the Company's corporate governance policies and procedures in my first Annual Report and Accounts since my appointment as Chairman. I am fully committed to strong corporate governance and firmly believe in the benefits an effective Board can bring to an organisation. I believe it is our governance structures that underpin our ability to deliver our strategy.

The Board is currently reviewing the Financial Conduct Authority's (FCA) proposals on 'Enhancing the Effectiveness of the Listing Regime', which include changes to the Listing Rules for premium listed companies with a controlling shareholder. The final rules are expected to be implemented in mid-2014 at the earliest and details of any changes to Kazakhmys' corporate governance will be set out in next year's annual report and accounts.

In September 2012, the Financial Reporting Council (FRC) published a revised edition of the UK Corporate Governance Code (the 'Code') which applies to Kazakhmys for the financial year ended 31 December 2013. The Board has reviewed the provisions of the Code and considered how best it can comply with all of the recommendations to ensure the effective operation of its business. 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 for conducting its business, reviewing its remuneration policy, maintaining 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 60 to 75 explains in detail how the Company has applied the principles and complied with the provisions of the 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 attention to some specific areas.

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 resource structures 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 ensures that the risk management measures and internal controls which are in place are appropriate and effective. The Board is aware of its obligations to the Company's shareholders and other stakeholders and responds to their needs by transparent reporting and active engagement.

Again, this year we have carried out an in-depth review of the Board's effectiveness and have produced an action plan to ensure constant improvement.

Changes to the Board

There have been a number of changes to the Board during the year. I succeeded Vladimir Kim as Chairman following his decision to step down at the conclusion of the annual general meeting on 17 May 2013. I would like to take this opportunity to thank Vladimir for his excellent stewardship of the Company over the last seven years and I am delighted that he has decided to continue his involvement with Kazakhmys as a non-executive Director and as executive chairman of Kazakhmys Corporation LLC. This will ensure the Group continues to benefit from his contributions and I will benefit from his advice as Kazakhmys moves towards the next stage in its development. Furthermore, as I was independent upon appointment as Chairman, Kazakhmys now complies fully with the provisions of the Code.

Philip Aiken and Daulet Yergozhin stood down from the Board in August and December 2013, respectively, and I would like to thank them for their committed services to the Board. During the year, Michael Lynch-Bell and Lynda Armstrong joined the Board. Michael brings considerable experience of the financial and global mining and energy sectors and Lynda's knowledge of the extractives industry and, particularly her experience in safety, technical and operational areas, will be invaluable in achieving the Group's objectives. The fresh insights and external perspectives that Michael and Lynda bring are complemented by the Company knowledge and understanding that our longer-serving Directors provide. I am confident that we not only have a Board focused on good governance but we have the right Board composition and that the Board works effectively, allowing us to respond to challenges as they arise. Further details on the Company's process to identify new members of the Board can be found on page 75.

Diversity

The Company takes account of diversity when recruiting, including when considering Board appointments. 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.



For more information see pages

60 Governance Framework

67 Board Committees

The Board recognises the need to create the conditions that foster talent and encourage all employees to achieve their full career potential 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 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 mean that the Board benefits from a diverse range of competencies, perspectives and thoughts, which provides a dynamic environment for decision-making.

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. We have therefore adopted a risk-based approach in establishing this system. The Group, in the course of its business activities, is exposed to strategic, financial, operational and compliance risks. Overall management of these risks lies with 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 66 and 67 and the Risk Management Overview section on pages 18 and 19.

Accountability

The Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information required for shareholders to assess the Company's performance, business model and strategy, and that the business continues to operate as a going concern.

Shareholder engagement

Engaging with shareholders is one of the key aspects of good corporate governance. Throughout the year the Chief Executive, Chief Financial Officer and I, supported by the Group's corporate communications team, 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 us in 2014.

As well as the annual general meeting held on 17 May 2013, Kazakhmys convened two further General Meetings on 2 August 2013 and 7 January 2014 to request shareholder approval of two important transactions that would assist the Company in its strategy to focus on its core copper business. At both General Meetings, members of the Board who were present made themselves available to discuss the proposed transactions with shareholders. We received strong shareholder approval in respect of both of these transactions and are grateful for your support as we take Kazakhmys forward.

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 8 May 2014.

Committee framework

Kazakhmys has a structured and established corporate governance framework in place which is committed to the Board's aim of achieving long-term and sustainable shareholder value. As a Board, we believe that for a framework to work well, constant evaluation is required to ensure that the overall aims are stretching but achievable.

The Board has four principal committees to deal with specific aspects of the Group's affairs: the Audit Committee; Group Health, Safety and Environment Committee; Remuneration Committee; and Nomination Committee. 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 below.

I look forward to leading the Board through this period of transition and to continue to develop and strengthen our corporate governance to meet the challenges ahead.

Simon Heale
Chairman

Board committees



Michael Lynch-Bell
Chairman
Audit Committee

See page 68



Charles Watson
Chairman
Group Health, Safety and Environment Committee

See page 72



Simon Heale
Chairman
Nomination Committee

See page 73

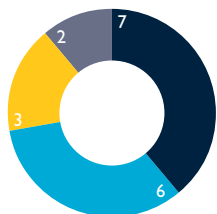


Lord Renwick of Clifton, KCMG
Chairman
Remuneration Committee

See page 76

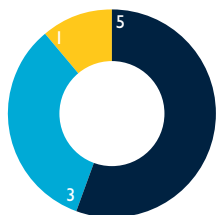
Experienced leadership

Directors' experience



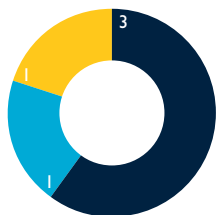
- Metals and mining
- Finance
- Oil and gas
- Health and safety

Directors' nationality



- British
- Kazakhstani
- Australian

Length of tenure of independent non-executive Directors



- 0-3 Years
- 3-6 Years
- 6-9 Years



Simon Heale

Non-executive Chairman

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, and a non-executive director of PZ Cussons plc.

Other appointments: Chairman of Gulf Marine Services and a non-executive director of Morgan Advanced Materials PLC, Coats plc and Marex Spectron Group Limited. He is also a trustee and treasurer of Macmillan Cancer Support.

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



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.



Eduard Ogay

Executive Director

Appointed to the Board: 2011

Nationality: Kazakhstani

Skills and experience: Eduard Ogay was appointed as an executive Director in 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.



Michael Lynch-Bell

Non-executive Director and Senior Independent 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 Ernst & Young's transaction advisory practice for mining and metals and as an elected member of its global advisory council in June 2012.

Other appointments: Non-executive director of Equus Petroleum Plc, Seven Energy International Limited and Lenta Limited. He is also a board member and treasurer of Action Aid International.

Committee memberships: Chairman of the Audit Committee and member of the Nomination Committee.

**Lynda Armstrong OBE**

Non-executive Director

Appointed to the Board: 21 October 2013**Nationality:** British

Skills and experience: Lynda Armstrong, a geophysicist by training, has over 30 years' natural resources experience with Shell. During her time with Shell she held a number of senior exploration and operational roles, including Director UK Exploration and New Business Development, Exploration Director of Petroleum Development Oman and Technical Vice President for Shell International.

Other appointments: Chair of the trustees of the British Safety Council, a non-executive director of the Central Europe Oil Company Limited and director of Calyx Consulting Ltd.

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

**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. He was previously a member of the advisory board of Pacific Aluminium.

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

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

**Vladimir Kim**

Non-executive Director

Appointed to the Board: 2005**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. Vladimir Kim stepped down as Chairman in May 2013, but remains on the Board as a non-executive Director and executive chairman of Kazakhmys Corporation LLC.

**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, Harmony Gold Mining Company Limited and Bumi plc. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board.

Other appointments: Deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont SA. 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 member of the Nomination Committee.

**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.

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

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

Remuneration Report



Lord Renwick of Clifton, KCMG
Chairman, Remuneration Committee

Dear fellow shareholder,

On behalf of the Board, I am pleased to introduce the 2013 Directors' Remuneration Report which sets out details of the remuneration policy for executive and non-executive Directors, describes how the remuneration policy is implemented and discloses the amounts paid relating to the year ended 31 December 2013.

In accordance with regulations issued by the Secretary of State for Business, Innovation and Skills, the Directors' Remuneration Report has been split into three sections: an Annual Statement by the chairman of the Remuneration Committee, the Policy Report and the Annual Report on Remuneration. The Policy Report (set out on pages 76 to 81) sets out the forward-looking remuneration policy for the Company and will be put to shareholders for approval in a binding vote at the Annual General Meeting on 8 May 2014. The formal effective date of the policy will be from the date of the approval by shareholders at the Annual General Meeting on 8 May 2014. The Annual Report on Remuneration (set out on pages 81 to 88), which describes how the policy has been implemented in the year under review and how it will be implemented for the year ahead, will be subject to an advisory vote at the Annual General Meeting.

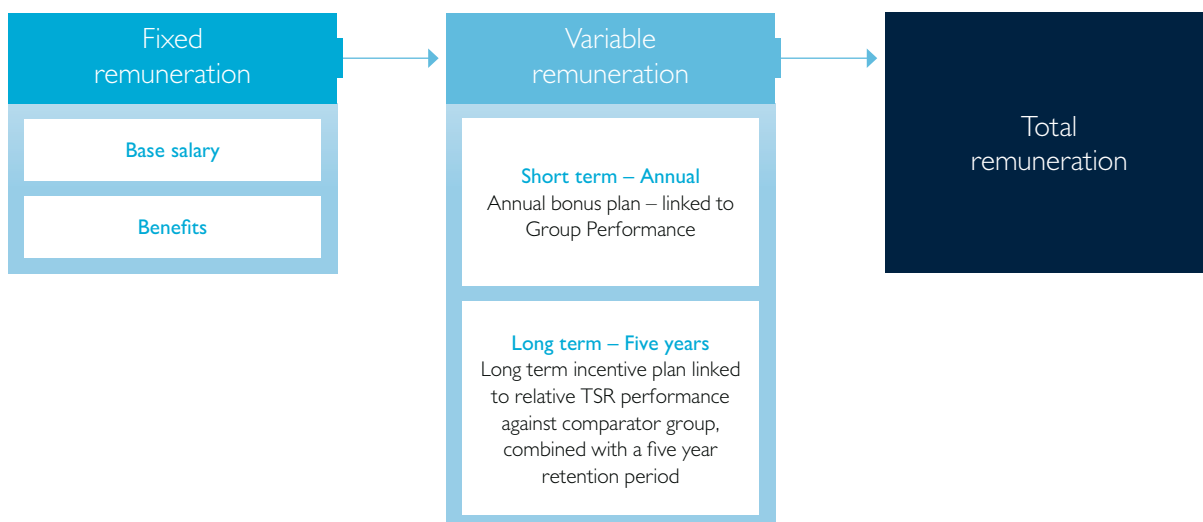
The changes to the structure and layout of the 2013 Directors' Remuneration Report are designed to improve transparency and to provide additional information on the alignment of strategy and executive Director remuneration. It is hoped that these changes to the Committee's disclosure practices will create 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.

Executive Director remuneration structure

Summary of remuneration structure





The Group is focused on restructuring its operations, optimising its 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 emphasis on ensuring a strong and demonstrable link between actual remuneration received, and the achievement of Kazakhmys' strategic and business objectives.

Remuneration structure

In order to provide a straightforward and transparent remuneration structure, 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.

2013 performance and reward

This has been a challenging year for Kazakhmys and the mining sector as a whole. Weak copper prices and rising costs have made for tough trading conditions and impacted profitability and free cash flow. Despite the challenging market conditions the executive management team were able to deliver satisfactory operational performance. Although measures were taken in the second half of the year to reduce costs, financial performance was below target, impacted by lower commodity prices and cost pressures. Share price performance was disappointing. Whilst Bozshakol remains on track for first production in 2015, an additional contractor has been appointed, which has led to an increase in the overall budget cost for the project of around \$350 million. Safety performance was not satisfactory and, in light of this, the Committee scaled back resulting bonuses. The overall level of performance achieved resulted in bonuses paying out at 35% of maximum bonus potential for the executive Directors. It is expected that the 2011 Long Term Incentive Plan awards, measuring performance from 1 January 2011 to 31 December 2013 and 1 June 2011 to 31 May 2014 (combined 41 month performance period) will lapse on 1 June 2014 on failing to achieve the required total shareholder return target.

During the year, the Committee has reviewed a number of aspects of executive Director remuneration structures to ensure they continue to be aligned with the Group's strategy, support the Group's business objectives and motivate beneficiaries. The two main focuses of the review were on the annual bonus plan and the Long Term Incentive Plan:

- To better align the annual bonus plan with the Group's key business focus of restructuring the core business and the delivery of the Group's major projects at Bozshakol and Aktogay, from 2014 the number of discrete elements was reduced from four to three: operational performance, financial performance and strategic developments, which will incorporate both project execution and restructuring. The first two elements will represent 25% each of the maximum bonus potential and the strategic developments element 50% of the maximum bonus potential.
- To enhance the alignment of interest between executive Directors and shareholders, the Committee agreed that executive Directors who participate in the Long Term Incentive Plan should be required to hold awards for a period of five years from the date of grant. The TSR comparator group of the Long Term Incentive Plan was also reviewed and amendments made to reflect the delisting of two constituents and the merger of two others. Further details are given on pages 78 and 84.

Shareholder engagement

The Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration. During the year, I wrote to a number of institutional shareholders and shareholder bodies to seek their views on the remuneration policy to be submitted to shareholders on 8 May 2014 to provide them with an opportunity to see the policy at an early stage and provide feedback. The dialogue was constructive and institutional shareholders were broadly supportive of the Committee's approach on these matters. The Committee considers these engagements vital to ensure its remuneration strategy continues to be aligned with the long-term interests of Kazakhmys' shareholders.

As set out above, the Policy Report will be subject to a binding vote and the Annual Report on Remuneration to an advisory vote at the forthcoming Annual General Meeting, and I have no hesitation in recommending them to shareholders. The members of the Committee will be happy to answer any questions on remuneration matters at the Annual General Meeting or are available at any other time to discuss feedback on the remuneration policy and its implementation.

Lord Renwick of Clifton, KCMG

Chairman, Remuneration Committee



Bozshakol

Site inspection of construction of the primary crusher.



Directors' Report

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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, rod and concentrate, which contributed 74% of total revenue in 2013. Sales of zinc in concentrate, silver and gold products are also an important part of the Mining Division's business model.

Kazakhmys Mining Production Summary

Copper production

kt (unless otherwise stated)	2013	2012
Ore output ¹	39,191	37,507
Copper grade (%)	0.99	0.95
Copper in concentrate from own production	314.6	303.7
Copper cathode equivalent from own concentrate	294.0	292.2
Cathode ²	262.5	292.2
Concentrate ³	31.5	–
Copper rod production	12.1	23.9

¹ Excludes output from the Central Mukur gold mine in 2012 and Bozymchak mine in 2013.

² Includes cathode converted into rod, excluding tolling.

³ Copper cathode equivalent of copper in concentrate sold.

Ore output from Kazakhmys Mining's 16 operating mines increased to 39.2 MT in 2013, 4% above the prior year. Whilst ore production volumes rose in 2013, the focus remained on profitable production across the Division's three regions, in particular the Zhezkazgan Region, which is reflected in the increase in ore grade.

Ore extraction in the Central Region rose significantly in 2013 as the Konyrat open pit mine, which was re-started in June 2012, operated for a full year. The West Nurkazgan underground mine increased output after reconstruction works to increase the capacity of the main ore transportation conveyor were completed in June 2013. Output recommenced at the Abyz open pit mine in August 2013 after extraction had been suspended in January 2013 for stripping works to extend the mine's operational life until 2017. During the year, 640 kt of ore extracted from Akbastau mine was stockpiled, containing approximately 8 kt of copper (2012: 6 kt), which is unlikely to be processed in the near future.

In the Zhezkazgan Region, ore output declined by 3% with a reduction in production from the Annensky mine, as operations at some sections of the mine were suspended in July 2012

due to depletion. With the Group's focus on improving the Region's cash flow, ore output from the lower grade sections of the West, South and Stepnoy mines declined in the second half of 2013.

Ore output from the East Region was 8% lower than in the prior year. The decline in production from the Region reflected delays with backfilling works and equipment maintenance at the Artemyevsky mine. The prior year also included output from the Nikolayevsky mine before its suspension in the third quarter of 2012, as challenging operating conditions rendered the mine uneconomic. The Orlovsky mine, the Division's largest mine by copper metal in ore extracted, maintained ore output at 1.6 MT and as mining moved to higher grade sections, the average copper grade rose to 3.45% up from 3.04% in 2012.

During 2013, the average copper grade of ore extracted by Kazakhmys Mining increased to 0.99%, driven by the extraction of higher copper content material at the majority of the mines in the Zhezkazgan Region with a focus on profitable production. Grades at the Zhomart mine, the largest producer of copper metal in the Zhezkazgan Region, fell to 1.11% due to the mining of lower grade pillars. Grades in the Central Region declined with additional output from the low grade Konyrat mine partially offset by increased output and higher grades at the Akbastau mine. East Region's grades were above the prior year with the mining of higher content sections of the Orlovsky mine and the suspension of the lower grade Nikolayevsky mine in 2012.

Overall, the copper in ore extracted by Kazakhmys Mining was 28.4 kt above the prior year, benefiting from the higher copper grades in the Zhezkazgan Region and additional metal in ore output from the Akbastau, Konyrat and West Nurkazgan mines in the Central Region. Copper in ore output from the East Region fell with the lower output and grades at the Artemyevsky mine.

Copper in concentrate production increased by 10.9 kt in 2013 to 314.6 kt. Production volumes of copper concentrate benefited from the additional volumes of copper metal in ore extracted and processed in 2013. However, this was partially offset by an increase in stockpiles during the year and a lower contribution from the reprocessing of waste material at the Balkhash processing facilities.

In the Zhezkazgan Region, as part of the ongoing review of assets, the Satpayev concentrator was suspended raising utilisation levels at the other two concentrators in the Region. The Zhezkazgan smelter was also suspended in the second half of 2013, resulting in the commencement of concentrate sales mainly to China which totalled 31.5 kt of copper cathode equivalent in 2013. The copper cathode and silver granule equivalents in the copper concentrate sold are recognised at recovery rates of 96.5% and 90%, respectively.

Copper cathode equivalent production from own material of 294.0 kt was 1.8 kt above the prior year. The 10.9 kt increase in copper in concentrate output in 2013 was offset by a large release of work in progress at the smelters in 2012. In 2013, copper cathode equivalent production included the release of 7.7 kt work in progress at the Zhezkazgan smelter.

Copper cathode equivalent production from own material is anticipated to be between 285 kt and 295 kt in 2014, approximately 40% of which will be from copper concentrate sales.

Overall ore extraction volumes and copper grades are expected to be consistent with 2013 levels. Ore production from the Zhezkazgan Region is planned to decline with the focus on improving cash flows in the Region and a further ramp up in production from the Konyrat and West Nurkazgan mines in the Central Region is anticipated. The production of copper in concentrate from the Bozymchak mine is due to commence in the first half of 2014. The copper concentrate is expected to be processed into copper cathode at the Balkhash smelter.

Copper rod production was below the prior year due to reduced demand for imported rod products in China and production volumes are anticipated to be at similar levels in 2014.

Zinc production

	2013	2012
Zinc grade (%)	3.09	3.31
Zinc in concentrate (kt)	134.1	151.6

The extraction of zinc metal in ore decreased by 21.1 kt to 213.6 kt in 2013. The decline in zinc metal output was impacted by the operational issues described previously at the Artemyevsky mine where zinc grades and ore output declined, partially offset by higher zinc grades at the Orlovsky mine. During 2013, zinc bearing ore was stockpiled at the Akbastau mine containing approximately 11 kt of zinc metal which is unlikely to be processed in the near future.

Zinc in concentrate production was 17.5 kt below the prior year due to a lower volume of zinc metal extracted and processed during the year. The decrease in zinc in concentrate output was partially offset by improved recovery rates at the Nikolayevsky concentrator in 2013, as the modernisation programme nears completion.

In 2014, zinc in concentrate production is expected to decline to approximately 120 kt with lower grades expected at the Orlovsky mine and lower zinc bearing ore volumes from the mature Yubileyno-Snegirikhinsky mine. It is expected that mining will cease at Yubileyno-Snegirikhinsky within the next two years due to depletion.

Silver production

koz (unless otherwise stated)	2013	2012
Silver grade (g/t)	15.59	16.78
Silver own production ^{1,2}	12,957	12,643
Silver granule equivalent in copper concentrate sold	1,391	–

¹ Includes slimes from purchased concentrate.

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

Silver metal in ore mined in 2013 was 602 koz below the prior year as lower silver grades in the East Region more than offset higher ore extraction volumes. Silver bar and granule output increased by 314 koz in 2013, benefiting from a reduction of work in progress, compared to an increase in work in progress during 2012. Following the suspension of the Zhezkazgan smelter, copper in concentrate containing 1,391 koz of silver granule equivalent was sold to customers in 2013.

The output of silver granule and bar, including the silver granule equivalent volumes in copper concentrate sales, is estimated to be around 11,000 koz in 2014 due to an expected decline in silver grades from the mature mines in the Zhezkazgan Region. The silver granule equivalent volumes in copper concentrate sales are expected to make up 40% of the total production volumes.

Gold production

	2013	2012
Gold grade (by-product) (g/t)	0.61	0.66
Gold own production (by-product) ¹ (koz)	102.9	115.9
Gold grade (primary) (g/t)	–	1.31
Gold doré production (primary) (koz)	4.6	13.1

¹ Includes slimes from purchased concentrate.

Gold metal in ore extracted in 2013 was 11.8 koz below the prior year with operations at the high gold grade Abyz mine suspended for stripping works in January 2013 before output recommenced in August 2013. Lower grades and ore extraction at the Artemyevsky mine also impacted gold metal in ore output in 2013.

Gold bar production (by-product) decreased by 13.0 koz in 2013 when compared to the prior year, reflecting the lower volume of gold in ore mined, a build-up of ore at the Karagaily concentrator and a slight increase in work in progress at the Balkhash smelter at the end of 2013.

Gold doré production from the residual processing of previously extracted ore from the Central Mukur and Mizek mines is expected to cease during 2014.

Total gold bar and doré production from the Mining Division is anticipated to be approximately 125 koz in 2014. This will include the initial output from the Bozymchak mine which is due to commence production in the first half of 2014 and the processing of material stockpiled in 2013.

Support services summary

Kazakhmys Mining operates two coal mines in the Central Region which supply the majority of their output to the Group's captive power stations with the balance sold to external third parties. In 2013, the coal mines produced 7.6 MT of coal, marginally ahead of 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)	2013	2012
Sales revenues:	3,058	3,362
Copper cathodes	1,973	2,088
Copper rods	85	187
Copper concentrate	210	–
Zinc concentrate	143	154
Silver ¹	311	414
Gold (by-product)	146	300
Gold (primary)	6	22
Other	184	197
Average realised price of copper (\$/t) ²	7,252	8,067
EBITDA (excluding special items)	705	1,160
Net cash costs excluding purchased concentrate (US\$/lb)	222	174
Gross cash costs excluding purchased concentrate (US\$/lb)	328	333
Capital expenditure ³	1,317	1,233
Sustaining	432	624
Expansionary	885	609

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

² For sales of copper cathode, rod and copper in concentrate.

³ Capital expenditure in 2012 and 2013 excludes major social projects.

Revenues

Kazakhmys Mining's revenues were \$304 million below the prior year due to the lower pricing for the Mining Division's key commodities and lower volumes of gold sales. The decline in revenues was partially mitigated by an 11% increase in copper cathode equivalent sales volumes in 2013.

Revenue from copper products of \$2,268 million was consistent with the prior year as higher copper cathode equivalent sales volumes offset the decline in realised copper prices. The average realised price for copper cathode and rod sales fell by 9% to \$7,318 per tonne in 2013. The realised price was below the average LME cash price for copper in 2013 of \$7,328 per tonne, reflecting the timing of sales during the year.

As a result of the suspension of the Zhezkazgan smelter in September 2013, copper concentrate produced in the Zhezkazgan Region was sold directly to customers. The average realised price for copper in concentrate on a cathode equivalent basis was \$6,663 per tonne including refining charges. The revenue from the sale of copper concentrate is recognised after refining charges are deducted. The revenue from the silver metal contained in the copper concentrate is recognised separately.

Copper product sales volumes increased from 282 kt in the prior year to 312 kt in 2013, with an 18 kt decrease in finished goods inventory during the year compared to a 10 kt rise in 2012 and slightly higher production volumes. In 2013 copper in concentrate sales totalled 31 kt on a cathode equivalent basis.

Revenues from zinc concentrate sales fell by \$11 million in 2013 with a 9% reduction in sales volumes due to lower production. The realised price for zinc concentrate was marginally above the prior year.

Revenues from silver product sales fell by \$103 million to \$311 million as pricing on the LBMA exchange for silver declined, resulting in a 24% fall in the average realised price for silver bar and granules in 2013 to \$23.70 per ounce. Silver product sales volumes of 13,506 koz in 2013 were slightly above the prior year as higher production volumes were partially offset by a build-up of finished goods. Sales volumes included silver in the copper concentrate sold during 2013 of 1,391 koz on a silver granule equivalent basis.

Revenues from gold products were significantly below the prior year with an 84 koz decrease in sales volumes to 109 koz in 2013. Sales volumes declined with a 22 koz reduction in production volumes and the sale of 69 koz of gold bar inventory in March 2012, which had been built-up in the second half of 2011. Gold product revenues were also impacted by lower pricing for gold on the LBMA exchange with the average realised price for gold products falling by 17% to \$1,390 per ounce in 2013.

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 2013, revenue from coal sales to the captive power stations totalled \$55 million.

EBITDA (excluding special items)

Kazakhmys Mining's EBITDA decreased by \$455 million, or 39%, to \$705 million in 2013, as revenues declined by \$304 million and total cash operating costs rose by \$151 million. While total cash operating costs increased year on year, in the second half of 2013 costs were below the comparative period in 2012 and the first half of 2013, reflecting the benefits of the Group's ongoing optimisation programme and asset review.

The Mining Division's cash cost of goods sold was higher in 2013 as the 4% increase in ore extraction volumes led to a higher usage of input materials such as explosives, fuel, diesel, tyres and reagents. Cost inflation for key input materials in 2013 was muted.

Operational employee costs rose in 2013 due to the pay awards made to staff in April and May 2012. Certain categories of workers were moved to a collective pay rate consistent across the Mining Division and the Division's wage structure was amended to recognise skills and experience. The impact of these pay awards has been partly mitigated by the Group's optimisation programme and measures to reduce employee costs. These initial actions have seen a decline in employee numbers and a reduction in working hours for some staff.

Repair and maintenance expenditure increased in 2013 with the additional ore volumes processed and inflationary pressures on the costs associated with maintaining underground mining and processing equipment.

Processing costs benefited from the closure of the Zhezkazgan smelter and the Satpayev concentrator. In December 2013, the Berezovsky concentrator, which processes ore from Irtysky mine, was suspended as part of the ongoing optimisation programme and asset review.

Utility costs rose as the tariffs charged by the captive power stations for electricity increased by 23% to reflect market rates instead of being priced at the cost of generation as in 2012. The increased tariffs offset the lower electricity usage volumes with the suspension of the Zhezkazgan smelter and Satpayev concentrator.

Selling and distribution costs were marginally above the prior year with the higher volumes of copper product sales.

The Mining Division's administration cash costs were above the prior year due to the full year effect of pay awards made during 2012 to administration staff to align their wages and salaries with the local market. The 2012 results also benefited from the release of a provision following a favourable court ruling in respect of environmental levies which was divided evenly between cost of goods sold and administration costs. Social responsibility costs were consistent with the prior year.

The Group's net disability benefits obligation increased by \$157 million in 2013 following the assumption of liabilities which were previously insured due to the insurance companies failing to make their required payments, and an increase in the number of claimants. The non-cash components of the disability benefits obligation of \$26 million and the \$84 million relating to the assumption of previously insured payments, are both excluded from EBITDA (excluding special items). Payments of \$52 million were made during 2013 compared to \$41 million in the prior year. Further details can be found in the Financial Review.

The tenge depreciated against the US dollar during 2013 with an average rate of 152.13 KZT/\$ in 2013 compared to a rate of 149.11 KZT/\$ in 2012. The decline in the average value of the tenge against the US dollar in 2013 reduced the tenge denominated costs such as labour, local services and utilities when stated in US dollar terms. On 11 February 2014, the National Bank announced it would support the tenge at around 185 KZT to the US dollar, resulting in the devaluation of the tenge.

Cash costs

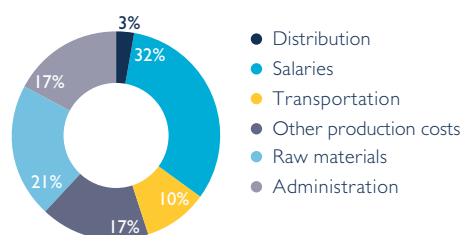
The gross and net cash cost per unit sold metrics are used as a measure of the cost efficiency of Kazakhmys Mining's copper production operations. The gross and net cash costs calculations include electricity purchased from the captive power stations at the cash cost of supply and also include a charge for the smelting and refining costs which are deducted from the sales price of copper in concentrate.

The gross cash cost of copper sales was 328 US cents per pound in 2013. While Kazakhmys Mining's operating cost base grew in 2013, gross cash costs on a per unit basis were lower than the reported figure in 2012 with the 11% increase in the copper cathode equivalent sales volumes.

While the reported gross cash cost per unit sold fell in 2013, the net cash cost increased from 174 US cents per pound to 222 US cents per pound. The higher net cash cost reflects the decrease in by-product credits with the lower pricing for silver and gold products and reduction in zinc in concentrate sales volumes. The prior period was impacted by the sale of additional gold volumes including 69 koz of gold inventory which reduced the net cash cost by 7 US cents per pound.

In 2014, operating costs will benefit from the devaluation of the tenge on 11 February 2014 against the US dollar which will reduce tenge denominated costs and from further cost savings from the Group's ongoing optimisation programme and asset review. These factors are expected to offset domestic inflation, an additional pension tax introduced in 2014, higher refining charges for the processing of copper concentrate sold to China and the expected decline in sales volumes which will negatively impact unit costs when compared to 2013. The gross cash cost of copper sold in 2014 is anticipated to be between 315 and 330 US cents per pound.

Kazakhmys Mining cash costs



Capital expenditure

Sustaining

Sustaining capital expenditure totalled \$432 million in 2013 with a number of measures successfully introduced during the year to optimise spend which was below originally planned levels. Around \$80 million of spend has been carried forward into 2014 due to the timing of payments.

Capital expenditure included continued investment on several upgrade projects carried forward from 2012 with spend of \$83 million on non-recurring mine development projects and concentrator improvements in 2013. The capital expenditure in the period was applied to the annual mining equipment replacement programme and to maintaining output at concentrators, smelters, auxiliary workshops and the transport network.

Investments were made to maintain critical equipment at processing facilities, in particular the annual overhaul of a furnace at the Balkhash smelter. Minimal work was conducted at the Zhezkazgan smelter ahead of its suspension in September 2013.

The reconstruction work of the Nikolayevsky concentrator to increase its capacity and recovery rates progressed during the year. Upgrades to the grinding section have been finished and improvements to the flotation sections are nearly completed. The majority of the reconstruction project at the concentrator is planned to be completed by the first half of 2014.

The tailings dam at the Karagaily concentrator, which currently processes ore from the Abyz and Akbastau mines, is being expanded to cater for future operations.

The project to recommence operations at the Konyrat mine also included increasing the capacity of the Balkhash concentrator to process the additional ore from the mine. Work on the Balkhash concentrator is expected to be completed by the second quarter of 2014 after the upgrade of ore loading facilities.

Developments continued at the West Nurkazgan mine to increase output with the reconstruction of the main conveyor and the upgrade of infrastructure at the site. Design work to improve the performance of the concentrator was conducted during the year.

In 2014, the Kazakhmys Mining Division's sustaining capital expenditure is expected to be between \$350 million and \$450 million, including mine development projects and concentrator improvements which will require up to \$100 million.

Expansionary

In 2013, the Mining Division conducted an extensive review of its mid-sized projects with the intention of scaling back the Group's capital expenditure requirements during the development of the major growth projects. A number of mine development projects that were progressing through the study phases have now been temporarily suspended.

The suspended projects include the Akbastau concentrator, South East Nurkazgan, Anissimov Klyuch, Zhaisan and Zhomart II development projects, although some project study works continued in 2013 in order to complete workstreams.

During 2013, technical studies continued on the project to extend the operational life of the Artemyevsky mine. Exploration data on the deposit was analysed and geotechnical and hydrogeological studies also progressed during the year. Further studies and some initial shafting work will be conducted in 2014, with the feasibility study for the project due to be completed in 2015.

In 2014, the Kazakhmys Mining Division's expansionary capital expenditure, excluding Bozymchak, Aktogay and Bozshakol, is expected to be up to \$30 million.

Bozymchak

The Bozymchak gold-copper deposit which is located in Kyrgyzstan is at the commissioning phase. The mine's initial operation will be as an open pit with 1 MT of ore extraction 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 stripping works and the development of the infrastructure required for the project to commence operation continued during the year. Infrastructure such as maintenance workshops, electricity lines, along with administration and accommodation facilities were either close to completion or completed.

The concentrator is now at the commissioning stage and operational crews have been preparing the concentrator with contractors ahead of its commencement and ramp up in 2014. The initial section of the mine's tailing dam has been completed and work will continue on the remaining sections throughout 2014.

The first copper and gold concentrate production from the project is expected in the first half of 2014. The project is forecast to require capital expenditure of around \$60 million in 2014 to complete the commissioning works.

Bozshakol

The Bozshakol sulphide ore deposit is located in the north of Kazakhstan and is a major growth project for Kazakhmys Mining. The first copper concentrate from Bozshakol is expected to be produced in 2015.

The development of the mine, concentrator and infrastructure is expected to cost around \$2.2 billion. The project is being funded from the \$2.7 billion facility obtained in 2010 from the China Development Bank and Samruk-Kazyna.

The deposit 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. A 25 MT per annum concentrator is being constructed, producing an average of 87 kt of copper in concentrate per annum for the first 15 years, with gold, silver and molybdenum as by-products. A 5 MT per annum clay plant will also operate in addition to the concentrator, contributing a further 16 kt of copper in concentrate per annum in the initial years of its operation.

During 2013, due to concerns over the progress of the project, Non Ferrous China was appointed as a second principal contractor at Bozshakol. Non Ferrous China has a strong track record in

significant construction projects with experience in Kazakhstan and will be focused on providing additional resource to complete the construction and commissioning of the processing plant.

Engineering design work for the concentrator and infrastructure progressed during the year and the majority of the work has been completed. The main process building at Bozshakol has been enclosed for the winter season after the erection of steelwork and cladding was completed in 2013. The three major mills for the processing of ore were delivered to site on time.

Good progress was made during the year on supporting infrastructure for the concentrator and mine with earthworks on the tailings dam, construction of the main concentrator building and other processing facilities progressing. Significant developments were made on the installation of the permanent camp for workers during the year. Earthworks for the clay plant have also commenced ahead of its construction in 2014.

In 2014, the construction of the mine maintenance workshop and truck shop are expected to be completed and pre-production mining is planned to commence. The project is forecast to require capital expenditure of between \$750 million and \$950 million in 2014.

Aktogay

The Aktogay copper ore deposit is the Group's second major growth project which commenced development after the Bozshakol project. The project will include an open pit mine and an on-site concentrator. The development is being primarily funded by 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 benefits from the infrastructure which has been developed at the site with a power transmission line, railway access and camp accommodation already in place.

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 has substantially been completed and construction of the leach pad commenced during the year. The first production from the oxide deposit is expected in 2015.

The development of the sulphide plant has been delayed by a year with the first ore due to be processed at the concentrator in 2017. 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 around 100 kt per annum for the first 10 years after the sulphide plant commences operation.

To ensure the successful delivery of the Aktogay project the principal contractor will be replaced with several smaller contractors in 2014. This has the added advantage of increasing the amount of local content in the project. The overall project costs are likely to change and an update will be provided once the tenders are completed. In 2014, work will continue on developing the infrastructure required to support the mine's operations including water, railway and electricity supply. Bulk earthworks at the site are also expected to recommence in spring 2014. The project is forecast to require capital expenditure of between \$450 million and \$650 million in 2014.

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.

In December 2013, Kazakhmys announced that it had entered into an agreement to sell its interest in Ekibastuz GRES-1 to Samruk-Energo. The transaction was approved by shareholders on 7 January 2014 and it is expected that the transaction will complete in the first half of 2014, subject to customary regulatory approvals.

Ekibastuz GRES-1 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 heat and power stations are located in Karaganda, Balkhash and Zhezkazgan. The power stations mainly support the Group's mining operations, although around 40% of the net power they generated in 2013 was sold to third parties. The captive power stations had an average combined nameplate capacity of 993 MW in 2013.

Kazakhmys Power Production Summary

Ekibastuz GRES-1

GWh (unless otherwise stated)	2013	2012
Net power generated	12,785	14,368
Net power generated attributable to Kazakhmys ¹	5,862	7,184
Net dependable capacity (MW)	2,608	2,287

¹ Based on the Group's 50% non-controlling interest in Ekibastuz GRES-1 until 5 December 2013 when the Group's investment was classified as an asset held for sale. Generation volumes after 5 December 2013 have not been attributed to Kazakhmys.

The net power generated at Ekibastuz GRES-1 in 2013 was 11% below the prior year at 12,785 GWh. The decline in net generation volumes was due to lower demand with a 2% decrease in electricity consumption in Kazakhstan compared to the prior year. Competition from domestic power stations also impacted generation volumes, as local producers supplied electricity at relatively low tariffs to maintain their sales volumes. The decline in Ekibastuz GRES-1's domestic sales volumes was partially offset by a 1,680 GWh increase in sales volumes exported to Russia.

The net dependable capacity of Ekibastuz GRES-1 increased by 321 MW in 2013 mainly due to the commissioning of Unit 8 in the fourth quarter of 2012. The optimisation and modernisation programme also continued at the power station and two ESPs were installed during the year, thereby reducing emissions and also raising the station's net dependable capacity.

Captive Power Stations

	2013	2012
Net power generated (GWh)	5,723	5,562
Net dependable capacity (MW)	843	854

The net power generation from the Group's three captive heat and power stations in 2013 was 3% above the prior year. Generation volumes benefited from improved equipment performance and an increase in availability following the enhancements made to the maintenance programmes at the power stations. Generation volumes from the power stations remain close to their maximum capacity.

The net dependable capacity of the captive power stations was marginally below the prior year as a turbine at the Balkhash heat and power station reached the end of its operational life in April 2013.

In 2014, generation volumes are expected to be slightly below the levels in 2013 as turbine replacements and other capital works are conducted to extend the operating lives and further improve the operating efficiency of the power stations.

Kazakhmys Power Financial Summary

The financial results for Ekibastuz GRES-1 and the captive power stations are discussed separately below. Equity accounting of Ekibastuz GRES-1's earnings in the Group's consolidated financial statements ceased from 5 December 2013 following the agreement to sell the Group's 50% interest in the power station to Samruk-Energo. Therefore, the results for 2013 set out below only include Ekibastuz GRES-1's operational activities up to 5 December 2013.

Ekibastuz GRES-1

\$ million (unless otherwise stated)	2013	2012
Sales revenues ¹	248	290
Average tariff price (KZT/kWh)	6.44	6.01
Domestic sales	6.88	6.11
Export sales	4.59	4.30
Average cash cost (KZT/kWh)	2.49	2.03
EBITDA (excluding special items) ¹	153	189
Capital expenditure ¹	154	162
Sustaining	63	90
Expansionary	91	72

¹ Represents 50% of Ekibastuz GRES-1's results for the year ended 31 December 2012 and for the period until 5 December 2013.

Revenues

Electricity revenues attributable to Kazakhmys in 2013 were 14% below the prior year partly because revenues in 2013 are only included until 5 December 2013 whereas the prior year revenues included 12 months.

Revenues generated by Ekibastuz GRES-1 in 2013 were also lower due to the challenging domestic electricity market. Sales volumes declined by 11%, driven by a reduction in domestic demand and increased competition from local producers, resulting in domestic sales falling by 24%. To partially offset the decline in local demand, Ekibastuz GRES-1 more than doubled the electricity volumes exported to Russia.

The reduction in Ekibastuz GRES-I's electricity sales volumes was partially offset by a 7% increase in the weighted average realised tariff. The ceiling tariff applicable for domestic sales rose to 7.30 KZT/kWh in 2013, a 12% increase from the ceiling tariff applicable for the majority of 2012 of 6.50 KZT/kWh. The tariffs for export sales to Russia were also higher than in the prior year with an increase in market prices in Russia, but remain below the domestic tariff.

EBITDA (excluding special items)

Ekibastuz GRES-I's EBITDA attributable to Kazakhmys was 19% below the prior year as the 2013 results only included operations up to 5 December 2013 and the profitability of the power station declined with lower revenues and higher operating costs.

Total cash operating costs at Ekibastuz GRES-I rose by 10% in 2013 as inflation increased the costs of inputs used in power generation. Fixed costs also increased with the growth in the power station's generation capacity as Unit 8 operated for a full year in 2013 after it was re-commissioned in the last quarter of 2012.

Expenditure on coal, which comprises around 45% of Ekibastuz GRES-I's cash costs, was consistent with the prior year as prices charged by suppliers increased by around 10% which offset the reduced consumption due to the lower generation volumes.

Employee costs rose with inflationary pay awards made during 2013. Staff numbers also increased to cater for the growth in the power station's production capacity, with Unit 8 operational throughout 2013 and Unit 2 planned to commence in 2014.

Ekibastuz GRES-I's maintenance programme expanded compared to the prior year increasing repair costs. The regulatory authorities also raised tariffs on emissions, water usage and distribution charges.

Cash cost

The average cash operating costs per kWh of electricity sold at Ekibastuz GRES-I increased by 23% in 2013. The growth in the average cash operating costs was partially due to lower sales volumes on a higher fixed cost base and also reflected the impact of inflation, in particular on coal prices.

Capital expenditure

Sustaining

Ekibastuz GRES-I runs a cyclical maintenance programme for the six 500 MW units operating at the power station to extend each unit's operating life. As part of this programme, major capital repair work on the boiler and auxiliary equipment at Unit 3 was conducted in conjunction with the installation of a new ESP in 2013. The second phase of the major overhaul of Unit 7 was also completed in November 2013.

Work was performed to enhance infrastructure at the power station with the reconstruction of the switchyard which integrates Ekibastuz GRES-I with the Kazakhstan power network, upgrade works to the station's ash disposal system and also the water treatment facilities.

Expansionary

Ekibastuz GRES-I has been undergoing a major expansion programme to restore the power station to its nameplate capacity of 4,000 MW. This programme continued during 2013 with work progressing on the rehabilitation of Unit 2. During the year, dismantling works on the turbine, auxiliary equipment and generator took place and some of the new equipment was received. The rehabilitation of the unit remains on schedule to complete in late 2014.

Ekibastuz GRES-I is proceeding with the rehabilitation of the final dormant unit, Unit 1. The project's design documents have been developed and dismantling work continued during the year. The unit is planned to be operational in late 2016.

To improve the environmental footprint of the power station, Ekibastuz GRES-I has been installing ESPs to the plant's generators to reduce ash emissions to international benchmark standards. Under this programme of work, ESPs were installed at Units 3 and 7 during the year. All the operating units at Ekibastuz GRES-I now have ESPs installed, significantly improving the environmental footprint of the power station.

Captive Power Stations

\$ million (unless otherwise stated)	2013	2012
Sales revenues	223	169
Electricity generation	192	154
Heat and other	31	15
Average realised electricity tariff price (KZT/kWh)	5.10	4.19
Third party sales	5.10	4.23
Intercompany sales	5.10	4.16
Average cash cost (KZT/kWh)	3.57	3.33
EBITDA (excluding special items)	48	19
Capital expenditure (sustaining)	67	47

Revenues

Revenues from the sale of electricity and heat to Kazakhmys Mining and to third parties by the captive power stations rose by 32% in 2013. Electricity revenues grew by \$38 million mainly as the ceiling tariff for the captive power stations increased 12% from 4.55 KZT/kWh in 2012 to 5.10 KZT/kWh in 2013 leading to a rise in the average realised tariff. Heat revenue also benefited from an increase in approved tariffs in 2013.

Electricity sales volumes were marginally higher than the prior year as generation at the captive power stations remained close to capacity. The suspension of the Zhezkazgan smelter and Satpayev concentrator in the second half of 2013 led to a decrease in the consumption of electricity at Kazakhmys Mining. This enabled the captive power stations to increase external sales in 2013 by 13%, to 2,366 GWh.

EBITDA (excluding special items)

The captive power stations' EBITDA increased by \$29 million to \$48 million with higher revenues partially mitigated by an increase in cash operating costs.

Cash operating costs at the captive power stations increased in 2013 by \$25 million as expenditure on repairs and maintenance rose to maintain and improve operational efficiency. The 2013 results also include a provision for bad debts mainly related to supplies of heating. In the prior year, the provision for bad debts was recognised within Kazakhmys Mining's results as the receivables were recorded prior to the separation of the captive power stations in late 2012.

Coal and mazut costs, which make up around 50% of the captive power stations' cost base, were marginally lower in 2013, mainly due to improved efficiency of the operations. The coal is sourced predominantly from the Mining Division at cost.

Employee costs were above the prior year with some pay awards made in 2012. Regulatory authorities raised tariffs on distribution charges which increased operational costs, while administration costs were consistent with the prior year.

Cash costs

The average cash operating costs per kWh of electricity sold from the captive power stations rose by 7% to 3.57 KZT/kWh compared to 3.33 KZT/kWh in 2012. The change in the average cost of electricity generation is mainly due to the additional repair and maintenance works conducted in 2013.

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

Capital expenditure

Capital expenditure of \$67 million was invested into the modernisation and replacement of the existing boilers and turbines along with the upgrade of infrastructure at the captive power stations, in order to sustain their existing capacity.

A turbine replacement programme is underway with projects to install new turbines at the captive power stations. Dismantling works took place during the year at the Zhezkazgan heat and power station ahead of the installation of two new turbines in 2014 with a combined capacity of 67 MW. The project to transfer a turbine from the Zhezkazgan heat and power station to the Balkhash heat and power station also progressed during the year.

In 2014, capital expenditure is expected to be between \$60 million and \$80 million.

Other businesses

Review of MKM

MKM is based in Germany and produces copper and copper alloy semi-finished products. The Group disposed of its 100% holding in MKM on 28 May 2013 for €42 million, including €12 million on a deferred basis. Kazakhmys also received a dividend of €10 million from MKM in April 2013. MKM is treated as a discontinued operation in the Group's financial statements.

\$ million	2013	2012
EBITDA (excluding special items) ¹	(2)	48
Capital expenditure ¹	9	11
Sustaining	9	9
Expansionary	–	2

¹ The results for MKM in 2013 are shown for the period until the date of MKM's disposal on 28 May 2013.

EBITDA (excluding special items)

EBITDA was negative \$2 million for the period to 28 May 2013 reflecting the IFRS inventory adjustment due to copper price movements which had a negative impact on EBITDA. In the prior year, MKM recorded a positive IFRS inventory adjustment.

Capital expenditure

Capital expenditure in the period to 28 May 2013 totalled \$9 million as MKM invested mainly to maintain production equipment.

Review of ENRC

ENRC is a diversified natural resources group with significant operations in Kazakhstan and Africa. The Group disposed of its 26% interest in ENRC on 8 November 2013. As consideration for its holding in ENRC, the Group received net cash proceeds of \$875 million and approximately 77 million ordinary shares in Kazakhmys, which have subsequently been cancelled.

ENRC EBITDA (excluding special items)

\$ million	2013	2012
Kazakhmys' share of EBITDA (excluding special items) of ENRC ¹	276	548

¹ Kazakhmys' share of EBITDA (excluding special items) of ENRC is for the period to 24 June 2013 based on the ENRC's unaudited interim results for the six months to 30 June 2013.

ENRC is treated as an asset held for sale from 24 June 2013 and a discontinued operation in the Group's financial statements. Kazakhmys' share of ENRC's EBITDA (excluding special items) in 2013 of \$276 million is for the period to 24 June 2013 compared to a full year contribution in 2012.

Kazakhmys' share of ENRC's EBITDA in 2013 was also below the prior year, as ENRC's profitability in the first half of 2013 when compared to the corresponding period in 2012 was impacted by lower contributions from the Ferroalloys, Alumina and Aluminium and Energy Divisions. ENRC's revenues were \$37 million lower in the first half of 2013 as higher sales volumes across all Divisions, except for the Iron Ore Division, reduced the impact of the lower realised prices obtained for key products such as ferroalloys. Operating cash costs were also higher than the comparative period in the prior year with the growth in sales volumes, an increase in wage rates and higher corporate costs in the first half of 2013.

Basis of preparation

The financial information has been prepared in accordance with IFRSs as adopted by the EU using accounting policies consistent with those adopted in the consolidated financial statements for the year ended 31 December 2012, except for the first-time adoption of IAS 19 (revised) 'Employee benefits' with effect from 1 January 2013. This has not had a material impact on the financial position or performance of the Group. Consequently, no adjustment has been made to the comparative financial information as at 31 December 2012.

As explained in note 10 of the consolidated financial statements and in the 'Discontinued operations' section of this Financial Review, the following businesses have been treated as discontinued operations for the year ended 31 December 2013: MKM, to the date of its disposal on 28 May 2013, the Group's joint venture investment in Ekibastuz GRES-1 to the date the Group accepted an offer for its sale on 5 December 2013 and the Group's investment in ENRC to the date the Group accepted an offer for its sale on 24 June 2013. The income statement prior year comparatives have been restated to conform to this presentation.

Income statement

An analysis of the consolidated income statement is shown below:

\$ million (unless otherwise stated)	2013	2012
Continuing operations		
Revenues	3,099	3,353
Operating costs (excluding non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, MET and special items)	(2,377)	(2,226)
Segmental EBITDA (excluding special items) from continuing operations	722	1,127
Special items:		
Less: additional disability benefits obligation related to previously insured employees	(84)	–
Less: impairment charges	(670)	(192)
Less: loss on disposal of assets	(14)	(8)
Less: MET	(242)	(260)
Less: non-cash component of the disability benefits obligation	(26)	(149)
Less: depreciation, depletion and amortisation	(288)	(276)
(Loss)/profit before finance items and taxation	(602)	242
Net finance costs	(79)	(91)
(Loss)/profit before taxation	(681)	151
Income tax expense	(127)	(86)
(Loss)/profit for the year from continuing operations	(808)	65
Discontinued operations		
Loss for the year from discontinued operations	(1,224)	(2,335)
Loss for the year	(2,032)	(2,270)
Non-controlling interests	2	(1)
Loss attributable to equity holders of the Company	(2,030)	(2,271)
EPS – basic and diluted (\$)		
From continuing operations	(1.57)	0.12
From discontinued operations	(2.39)	(4.45)
	(3.96)	(4.33)
EPS based on Underlying Profit (\$)		
From continuing operations	0.04	0.36
From discontinued operations	0.33	0.58
	0.37	0.94

Revenues

The Group's revenues of \$3,099 million were 8% below the \$3,353 million achieved in the year ended 31 December 2012. Copper revenues were in line with 2012 as higher copper cathode equivalent sales volumes compensated for lower realised prices following an 8% fall in the average LME price. The higher copper cathode equivalent sales volumes were attributable to a rise in production volumes as well as a reduction in finished goods inventory. The decline in total revenues was due to a fall in by-product revenues, particularly gold, which in 2012 benefited from the sale of inventory accumulated in the second half of 2011. Realised prices for both gold and silver by-products declined.

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. As EBITDA is considered to be a proxy for cash earnings from current trading performance, 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 Directors also 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.

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

13	1,149
12	1,912
11	2,925
10	2,835
09	1,634

A reconciliation of Group EBITDA (excluding special items) by operating segment is shown below:

\$ million	2013	2012
Continuing operations		
Kazakhmys Mining	705	1,160
Kazakhmys Power ¹	48	19
Corporate Services	(31)	(52)
Total continuing operations	722	1,127
Discontinued operations		
MKM	(2)	48
Share of EBITDA of joint venture ²	153	189
Segmental EBITDA (excluding special items)	873	1,364
Share of EBITDA of associate ³	276	548
Total discontinued operations	427	785
Group EBITDA (excluding special items)	1,149	1,912

¹ Kazakhmys Power in continuing operations comprises the Group's captive power stations.

² The share of EBITDA of joint venture relating to Ekibastuz GRES-I up to 5 December 2013, the date on which the Group accepted an offer for its sale and ceased equity accounting, and for the year ended 31 December 2012, is classified within discontinued operations.

³ The share of EBITDA of associate relating to ENRC up to 24 June 2013, the date on which the Group accepted an offer for its sale and ceased equity accounting and for the year ended 31 December 2012, is classified within discontinued operations. The share of EBITDA (excluding special items) of ENRC excludes MET of ENRC.

Segmental EBITDA (excluding special items) from continuing operations of \$722 million was 36% lower than the prior year, principally as the decline in revenues and higher operating costs driven by inflationary pressures on input costs led to a fall in the EBITDA contribution from Kazakhmys Mining.

The EBITDA contribution of Kazakhmys Power increased to \$48 million from \$19 million in 2012 due to a growth in revenues, benefiting from higher ceiling tariffs.

EBITDA (excluding special items) from discontinued operations decreased compared to the prior year. MKM's contribution for the period to 28 May 2013, the date on which it was sold, was a loss as declining copper prices led to a negative IFRS inventory adjustment in cost of sales compared to a positive adjustment in 2012. The Group's 50% share of EBITDA of Ekibastuz GRES-I to 5 December 2013 has fallen by 19% to \$153 million, affected by

equity accounting for this shortened period compared to a full year in 2012, lower sales volumes and higher operating costs. The Group's 26% share of EBITDA (excluding special items) of ENRC of \$276 million to 24 June 2013 represented a decline of \$272 million compared to the share of EBITDA for the full year in 2012.

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

13	(33)	705	201	276
12	(4)	1,160	208	548

● Kazakhmys Mining ● Other
 ● Share of EBITDA of associate ● Kazakhmys Power

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 within continuing operations are:

Special items within (loss)/profit before finance items and taxation:

2013

Impairment charges

In light of the decline in the price of commodities produced by the Group and inflationary pressures on operating costs, the Group commenced an optimisation programme and asset review which has resulted in operating cost and capital expenditure savings.

The asset review has considered the results of the optimisation programme to date, and the potential for future cost savings, when assessing the future economic outlook for assets. The prospects for the Zhezkazgan Region, a cash generating unit within the Mining Division, are considered challenging. The recoverable amount of the Zhezkazgan Region cash generating unit is believed by management to be significantly lower than its carrying value such that the Region has been fully impaired and an impairment charge has been recognised as follows:

- \$477 million against total assets in the Region, comprising \$325 million against property, plant and equipment, \$139 million against mining assets and \$13 million against long-term advances.

The asset review also resulted in certain production assets and medium-sized projects being suspended or subject to a change in intended use. The following impairments against specific assets have been recognised:

- \$119 million against assets in the Zhezkazgan Region, comprising \$115 million against property, plant and equipment, primarily relating to the Satpayev concentrator, which was suspended in June 2013, and the Zhezkazgan smelter, which was suspended in the second half of 2013, and \$4 million against specialised consumables;
- \$61 million against medium-sized projects which were suspended; and
- \$13 million against other assets, including the Berezovskiy concentrator in the East Region, which was suspended in the second half of 2013.

The total impairment charges treated as special items for the year ended 31 December 2013 were \$670 million.

Loss on disposal of assets

During 2013, the Group disposed of various assets for proceeds of \$38 million, on which a loss of \$14 million was realised.

Disability benefits obligation

In accordance with Kazakhstan law, the Group obtained insurance cover from 2005 for the disability payments to employees for illness and disability sustained at the Group's operations. During 2013, as a result of financial difficulties, the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. The Group has assumed the liability for future disability benefit payments to these employees and the related \$84 million charge has been treated as a special item in the income statement.

Further details of the disability benefits obligation are given in the 'Balance Sheet' section of this review.

2012*Impairment charges*

The following impairment charges were recognised in 2012:

- a charge of \$162 million in respect of the Bozymchak gold/copper project in Kyrgyzstan. As a result of operational challenges experienced in Kyrgyzstan the project is expected to commence production later than originally envisaged, capital costs were revised upwards and the risks associated with the project's execution were re-assessed. Following the impairment charge, which consisted of \$71 million against mining assets and \$91 million against property, plant and equipment, the Bozymchak project was recognised at its recoverable amount of \$106 million as at 31 December 2012. Of the total Bozymchak impairment, \$19 million related to the impairment of capitalised borrowing costs;
- within mining assets, a charge of \$7 million relating 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 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 re-assessment of their future cash flows.

Loss on disposal of subsidiary

In 2012, Kazakhmys Mining sold a subsidiary in Kazakhstan and recognised a loss on disposal of \$8 million.

Total special items within (loss)/profit before finance items and taxation for continuing operations in 2013 amounted to \$768 million compared to \$200 million in 2012. Special items within loss before finance items and taxation in respect of discontinued operations of \$551 million (2012: \$30 million) relate to the losses on disposal of the Group's investment in ENRC and MKM and the impairment charge recognised to reduce MKM's carrying value to the net sales proceeds. Further details are given in the 'Discontinued operations' section.

Net finance expenses

Finance expenses from continuing operations for the year, including foreign exchange movements, interest on employee benefits obligations and the discount on the unwinding of long-term provisions, were \$79 million compared to \$91 million in the prior year. The finance costs incurred on borrowings decreased to \$51 million from \$79 million in 2012, as \$126 million of the total \$177 million interest charged on the Group's borrowings was capitalised to the development projects, Bozshakol, Bozymchak and Aktogay, an increase of \$87 million over the costs capitalised in 2012. The level of capitalised costs has risen due to higher interest charges on larger outstanding principal balances.

The decrease in finance costs incurred on borrowings was partially offset by an \$11 million increase in the interest charged on the employee benefits obligation, as a higher discount rate was applied to a larger obligation.

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.

\$ million (unless otherwise stated)	2013	2012
(Loss)/profit before taxation from continuing operations	(681)	151
Add: MET	242	260
Add: special items	768	200
Adjusted profit before taxation from continuing operations	329	611
Income tax expense	127	86
Add: MET	242	260
Add: deferred tax asset on additional disability benefits obligation related to previously insured employees	17	–
Less: impairment of deferred tax assets recognised in the Zhezkazgan Region	(98)	–
Add: refund of past EPT payments	–	60
Add: recognition of a deferred tax asset resulting from impairment charges	21	13
Add: deferred tax assets on other special items	2	–
Adjusted tax expense from continuing operations	311	419
Effective tax rate (%)	(19)	57
All-in effective tax rate¹ (%)	95	69

¹ The 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 and other non-recurring items. The all-in effective tax rate is considered to be a more representative tax rate on the recurring profits of the Group.

Effective tax rate

Despite making a loss before taxation from continuing operations of \$681 million, the Group has incurred a tax charge of \$127 million. This is largely due to the non-deductibility of the impairment charges recognised during the year, in particular the \$477 million impairment in respect of assets in the Zhezkazgan Region, which has a \$95 million negative impact on the tax charge. In addition, previously recognised deferred tax assets of \$98 million in the Zhezkazgan Region, primarily related to the employee benefits obligation, have been impaired. Based on the economic outlook for the Region it is not expected that sufficient taxable income will be generated to recover these assets. Other factors affecting the tax charge and effective tax rate in 2013, such as transfer pricing provisions, other non-deductible items and unrecognised tax losses, are discussed below.

As a result of these factors the effective tax rate was (19)% compared to 57% in 2012, which benefited from a refund of EPT of \$60 million received during the year. The restatement of the Group's income statement following the reclassification of ENRC and Ekibastuz GRES-I as discontinued operations has led to a restatement of the effective tax rate for 2012. Prior to this reclassification the effective tax rate was (4)%.

All-in effective tax rate

The all-in effective tax rate increased from 69% in 2012 to 95% in 2013, as MET, which is revenue-based and independent of the profitability of the operations, was only 7% lower than in 2012, whilst the adjusted profit before taxation fell by 46%. In 2013, the MET charge represented 74% of the adjusted profit before taxation compared to 43% in 2012. The level of non-deductible items, other than the impairment charge in respect of the Zhezkazgan Region, is largely unchanged and also represents a higher proportion of the adjusted profit before taxation in 2013 compared to the prior year.

Excess profits taxation (EPT)

As disclosed in the 2012 Annual Report and Accounts, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC in relation to past disputes over the interpretation of the EPT legislation. As part of this ruling, the Supreme Court also found that Kazakhmys LLC should not have been an EPT payer in the period from 2006 to 2008 inclusive. Management subsequently submitted a claim for \$108 million to the Ministry of Finance. By 31 December 2012, \$60 million had been reimbursed by set-off against the 2012 tax year income tax and mineral extraction tax liabilities and was recognised in the consolidated financial statements as a special item. The remaining \$48 million of the \$108 million claim was challenged by the Ministry of Finance, who believes that this amount relates to periods beyond the Kazakhstan statute of limitations. The Ministry of Finance is continuing to pursue legal action over the remaining \$48 million of the \$108 million claim. Consequently, management believes there is sufficient uncertainty over its recoverability such that a credit has not been recognised in the 2013 income statement.

Transfer pricing

A provision of \$5 million has been recognised as at 31 December 2013 (2012: \$6 million) for transfer pricing exposures. This is 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.

In addition to the current year charge, the Group released past transfer pricing provisions of \$18 million following confirmation of the Group's transfer pricing calculations on by-products by the tax authorities.

Non-deductible items

The tax impact of non-deductible items, other than the impairment charge in respect of the Zhezkazgan Region referred to above, was \$50 million in 2013 (2012: \$53 million), mainly relating to other impairment losses and ongoing non-deductible business expenses at Kazakhmys Mining.

Unrecognised tax losses

The Group has incurred tax losses during the year, primarily related to certain subsoil use contracts, which are not forecast to generate sufficient taxable profits to utilise these losses in the foreseeable future. As a result, deferred tax assets of \$27 million (2012: \$16 million) in respect of these losses have not been recognised.

Taxation related special items:

2013

As noted above under 'Effective tax rate', previously recognised deferred tax assets in the Zhezkazgan Region of \$98 million have been impaired. This charge has been treated as a taxation related special item.

Deferred tax assets have been recognised in respect of certain impairment charges, treated as special items, where future tax benefits are expected. The resulting tax credit has been treated as a taxation related special item.

The additional disability benefits obligation recognised in 2013 of \$203 million, of which \$84 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 during the year in respect of the obligation, with \$17 million in respect of the \$84 million charge treated as a taxation related special item. The majority of this deferred tax asset has subsequently been impaired at year end as part of the \$98 million deferred tax impairment in the Zhezkazgan Region referred to above.

MET

MET is a revenue-based tax and is derived from the volume and metal content of extracted ore and global commodity prices. During 2013, the impact of lower commodity prices was only 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 \$260 million in 2012 to \$242 million, a reduction of 7%.

2012

As the impairment of the Bozymchak asset in 2012 was treated as a special item, the related tax impact of this impairment, a deferred tax credit of \$13 million, was also treated as a special item. The deferred tax credit was recognised at 10%, being the statutory rate in Kyrgyzstan.

Future tax rates

Future tax rates are materially affected by the application of corporate income tax ('CIT') and MET. The CIT rate in Kazakhstan is 20% on assessable profits whilst MET is revenue-based and dependent on copper prices.

Tax charge and cash tax cost (\$ million)



Discontinued operations

\$ million	2013	2012
MKM		
(Loss)/profit before tax excluding impairment losses	(2)	44
Impairment losses	(23)	(18)
Loss on disposal	(1)	–
Taxation (charge)/credit	(1)	7
(Loss)/profit for the year	(27)	33
Ekibastuz GRES-I		
Share of profits from joint venture	89	126
Profit for the year	89	126
ENRC		
Share of profits/(losses) from associate	65	(258)
Impairment charge against investment in associate	(823)	(2,223)
Loss on disposal	(528)	–
Loss for the year	(1,286)	(2,481)
Kazakhmys Petroleum		
Loss on disposal	–	(13)
Loss for the year	–	(13)
Loss for the year from discontinued operations	(1,224)	(2,335)

MKM

MKM was sold on 28 May 2013, for a consideration of €42 million (\$55 million), comprising €30 million (\$39 million) in cash and €12 million (\$16 million) which is deferred over four years. The results from MKM include its loss for the period until its disposal of \$4 million, an impairment charge of \$22 million to write MKM down to the net sales proceeds and a \$1 million loss on its disposal. The loss on disposal of MKM arises from the recycling of the foreign currency translation losses recognised in the Group's equity on consolidation of MKM of \$2 million.

Ekibastuz GRES-I

On 5 December 2013, the Directors accepted an offer from Samruk-Energy, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-I and the Group's investment in Kazhydrotechenoergo LLP (Kaz Hydro) for a net amount of \$1,249 million, after transaction costs of \$2 million and the additional \$49 million payable for the remaining shares held in Kaz Hydro. The offer was approved by Kazakhmys shareholders on 7 January 2014, with completion dependent on certain conditions precedent. The share of the post-tax results of Ekibastuz GRES-I for the period ended 5 December 2013, the date on which equity accounting ceased, of \$89 million has been included in the 2013 consolidated income statement. This represents a 29% fall compared to \$126 million reported for the full year of 2012 due to the shortened period, lower sales volumes and higher operating costs.

ENRC

On 24 June 2013, the Group accepted the proposed offer from Eurasian Resources Group B.V. ('Eurasian Resources') for its 26% investment in ENRC, comprising \$2.65 in cash plus approximately 0.23 Kazakhmys PLC shares per ENRC share, amounting in total to \$1,194 million net of expenses. An impairment charge of \$823 million was recognised to write the investment down to this value in the first half of 2013. On 8 November 2013, the transaction completed and the Group received the net proceeds of \$1,194 million, comprising \$875 million in cash and 77,041,147 Kazakhmys PLC shares valued at \$319 million. The Group recognised a loss on disposal of \$528 million, mainly representing the recycling of the Group's share of ENRC's reserves which arose principally from the translation reserve. As well as the impairment charge and the loss on disposal, the Group's share of post-tax results of ENRC of \$65 million up to 24 June 2013, the date on which equity accounting ceased, has been included in the 2013 consolidated income statement. The Group's share of ENRC's post-tax results for the year ended 31 December 2012 was a loss of \$258 million, after an impairment charge of \$316 million.

The results from discontinued operations for the year ended 31 December 2012 comprise MKM, Ekibastuz GRES-I and ENRC as well as the final completion price adjustment on the sale of Kazakhmys Petroleum.

Underlying Profit

The reconciliation of Underlying Profit from (loss)/profit attributable to equity holders of the Company is set out below:

\$ million	2013	2012
Net (loss)/profit attributable to equity shareholders of the Company from continuing operations	(806)	64
Special items:		
Additional disability benefits obligation related to previously insured employees	84	–
Impairment charges	670	192
Loss on disposal of assets	14	8
Taxation related special items:		
Recognition of a deferred tax asset on additional disability benefits obligation related to previously insured employees	(17)	–
Impairment of deferred tax assets recognised in the Zhezkazgan Region	98	–
Refund of past EPT payments	–	(60)
Recognition of a deferred tax asset resulting from impairment charges	(21)	(13)
Deferred tax assets on other special items	(2)	–
Underlying Profit from continuing operations	20	191
Net loss attributable to equity shareholders of the Company from discontinued operations	(1,224)	(2,335)
Special items:		
Subsidiary businesses		
Impairment charge recognised on remeasurement to fair value less costs to sell – MKM	22	17
Loss on disposal of subsidiaries and investment in associate	529	13
Impairment charge recognised on remeasurement to fair value less costs to sell – ENRC	823	2,223
Associate		
Impairment charge recognised by associate	42	316
Onerous contract (utilised)/recognised	(13)	85
Acquisition related transaction costs	1	7
Net gain arising from business combinations	–	(23)
Taxation effect of special items		
Release of deferred tax liabilities/(assets) resulting from the remeasurement of MKM	4	(2)
Recognition of deferred tax assets on impairment charges recognised by ENRC	(14)	–
Underlying Profit from discontinued operations	170	301
Total Underlying Profit	190	492

The Group's net loss attributable to equity holders of the Company from continuing operations was \$806 million for the year ended 31 December 2013, down from a profit of \$64 million in the prior year. Excluding impairment charges and other special items,

Underlying Profit for the year was \$20 million from continuing operations compared to \$191 million in 2012, due to the reduced profitability in the Mining Division. Underlying Profit from discontinued operations was \$170 million compared to \$301 million in the prior year and was impacted by the share of post-tax profits for ENRC in 2013 only being recognised to 24 June 2013 compared to a full year in 2012.

Earnings per share

\$ million (unless otherwise stated)	2013	2012
Net loss attributable to equity holders of the Company	(2,030)	(2,271)
Total Underlying Profit	190	492
Weighted average number of shares in issue (million)	513	524
EPS – basic and diluted (\$)		
From continuing operations	(1.57)	0.12
From discontinued operations	(2.39)	(4.45)
	(3.96)	(4.33)
EPS based on Underlying Profit (\$)		
From continuing operations	0.04	0.36
From discontinued operations	0.33	0.58
	0.37	0.94

Basic earnings per share from continuing and discontinued operations was a loss of \$3.96 per share, compared to a loss of \$4.33 in the prior year. Earnings per share based on Underlying Profit decreased to \$0.37 for the year ended 31 December 2013 from \$0.94 in the prior year due to the decrease in Underlying Profit, as explained above, and the reduction in the weighted average number of shares in issue in 2013 arising from the 77,041,147 Kazakhmys PLC shares received as part of the consideration for the ENRC disposal, which were subsequently cancelled on 8 November 2013. The share buy-back programme which commenced in September 2011 and completed in May 2012 also contributed to the decrease in the weighted average number of shares in issue in 2013.

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:

	2013	2012
Group EBITDA (excluding special items) (\$ million)	1,149	1,912
EPS based on Underlying Profit (\$)	0.37	0.94
Free Cash Flow (\$ million)	(171)	85
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	222	174

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. In previous years, share buy-backs and special dividends have been used in addition to the ordinary dividend to return surplus funds to shareholders.

The Company paid dividends of 8.0 US cents per share (\$42 million) during the first half of 2013, representing the 2012 final dividend. Taking into consideration the current low level of cash generation, the ongoing asset review and the Group's anticipated increase in net debt during the construction phase of the two major growth projects, the Directors did not declare an interim or recommend a final dividend for 2013. The Board will continue to assess the Group's financial position, its cash flows and growth requirements in determining when to resume dividend payments in the future.

In 2013, the Group received 77,041,147 Kazakhmys PLC shares valued at \$319 million as part of the ENRC disposal proceeds, which were cancelled. In 2012, a share buy-back programme which had commenced the previous year was completed, repurchasing 6 million shares at a cost of \$88 million.

Cash flows

A summary of cash flows is shown below:

\$ million	2013	2012
Segmental EBITDA before joint venture and associate	(599)	945
Impairment losses	712	220
Non-cash component of the disability benefits obligation	(26)	(149)
Loss on disposal of associate, subsidiary and other assets	543	23
Dividends received from associate and joint venture	-	87
Working capital movements ¹	179	64
Interest paid	(156)	(85)
MET paid	(259)	(199)
Income tax paid	(67)	(142)
Foreign exchange and other movements	(2)	(17)
Net cash flows from operating activities before other expenditure associated with major projects	325	747
Sustaining capital expenditure	(496)	(662)
Free Cash Flow	(171)	85
Expansionary and new project capital expenditure	(757)	(567)
Non-current VAT receivable associated with major projects	(44)	(55)
Major social projects	(32)	(12)
Interest received	12	15
Proceeds from disposal of property, plant and equipment	38	51
Proceeds from disposal of investment in associate	875	-
Proceeds from disposal of subsidiaries, net of cash disposed	27	3
Dividends paid	(42)	(121)
Purchase of own shares under the Group's share buy-back programme	-	(88)
Other movements	(9)	(22)
Cash flow movement in net debt	(103)	(711)

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 no dividends received, which were only partially offset by a higher working capital inflow over the year. The Group received \$902 million from the disposal of ENRC and MKM, net of cash disposed.

On receipt of the \$1,249 million net proceeds from the sale of Ekibastuz GRES-I, expected in the first half of 2014, the Group would return to a net funds position on a pro forma basis as at 31 December 2013.

Dividends received

In 2013, the Group received no dividends from either ENRC or the Ekibastuz GRES-I joint venture compared to dividends of \$59 million from ENRC and \$28 million from Ekibastuz GRES-I received in 2012.

Working capital

The working capital movements resulting in the \$179 million inflow in 2013 are explained below:

- inventory levels declined by \$145 million, of which \$106 million was from Kazakhmys Mining, \$12 million from Kazakhmys Power and \$27 million from MKM. At the end of 2012, there was a significant volume of goods in transit which was recognised in 2013 and the Group has been successful in maintaining low levels of copper finished goods inventory throughout 2013. The optimisation programme has also resulted in improved consumables inventory management. MKM's reduction in inventory levels reflects the impact of lower commodity prices on their copper inventory compared to the prior year;
- receivables increased by \$185 million due to the timing of cash receipts and changes in product mix. Copper concentrate sales, which commenced following the suspension of the Zhezkazgan smelter, are only settled in full following confirmation of content and quality. In addition, when comparing December 2013 with December 2012, a greater proportion of cathode sales were to China where payment terms under letter of credit are longer than for sales to Europe. Both these factors have contributed to the higher receivables balance at 31 December 2013 with a further \$59 million due to seasonal fluctuations at MKM when comparing May 2013, the month in which the disposal was completed, with December 2012;
- prepayments and other current assets fell by \$31 million reflecting tight controls over working capital. The reduction in working capital would have been greater, however, delays in the tax authorities conducting a VAT audit in the second half of 2013 has led to an increase in the VAT receivable balance by \$22 million; and
- trade and other payables, employee benefits and provisions increased by \$188 million in 2013, primarily at Kazakhmys Mining. Of this increase, \$138 million related to the disability benefits obligation, mainly due to the assumption of previously insured liabilities by the Group and a change in actuarial assumptions. Trade and other payables also increased by \$44 million due to amounts owed to contractors in respect of the major projects.

In the prior year, there was a working capital inflow of \$64 million. Overall inventory levels increased by \$40 million as the reduction of 69 koz of gold bar stock produced in 2011 was not sufficient to offset increases in other finished goods and larger raw material inventories due to higher input prices. MKM's inventory levels rose due to an increase in volume and a higher copper price. Prepayments and other current assets rose by \$177 million in 2012, of which VAT receivable balances increased by \$89 million due mainly to a delayed VAT refund, which was received in the first half of 2013. Receivables decreased at Kazakhmys Mining by \$52 million, reflecting lower revenues and the timing of receipts. Trade and other payables, employee benefits and provisions increased by \$281 million in 2012, of which \$168 million related to the disability benefits obligation and \$110 million was due to higher trade and other payables, principally for auxiliary services and equipment purchases.

Interest cash flows

Interest paid during the year was \$156 million, \$71 million above the interest paid in 2012 of \$85 million, primarily due to an increased level of debt outstanding during the year. The average effective interest rate on debt of 5.1% was consistent with the prior year.

Income taxes and mineral extraction tax

Income tax payments of \$67 million were lower than the \$142 million in the prior year, reflecting the fall in the Group's profitability. The income tax payments were higher than the income statement charge for current tax of \$44 million, as the Group continued to make advance payments in 2013 based on prior year profitability. As a result, the Group's net tax receivable position at 31 December 2013 of \$50 million was higher than the \$29 million as at 31 December 2012.

MET payments of \$259 million were above the income statement charge of \$242 million and are expected to result in reduced payments in 2014. MET payments in 2012 were reduced by the \$56 million offset from the refund of past EPT payments against the MET liability.

Free Cash Flow

A higher working capital inflow, lower income tax payments and reduced sustaining capital expenditure partially offset the impact of lower earnings, higher interest and MET payments and no dividends from ENRC or Ekibastuz GRES-I. Free Cash Flow was a negative \$171 million including interest payments of \$156 million, a decline from a positive \$85 million Free Cash Flow in the prior year.

Capital expenditure

Capital expenditure on sustaining the current business operations was reduced to \$496 million from \$662 million, and expansionary expenditure rose by \$190 million as the Group invested in Bozshakol, Aktogay and the medium-sized projects. Total capital expenditure incurred in the year was \$1,253 million, compared to \$1,229 million for the year ended 31 December 2012.

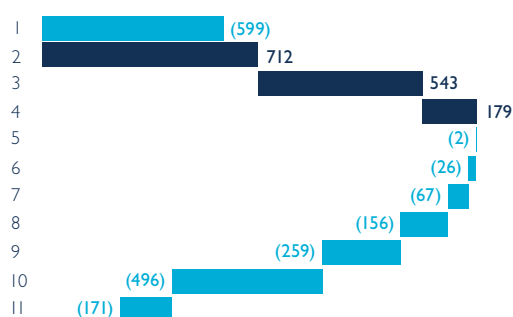
Major social projects

In 2013, the Group spent \$32 million (2012: \$12 million) as part of the Group's social development programme on major projects in Kazakhstan.

Investing and financing cash flows

Investing and financing cash flows during 2013 related to the proceeds received from the sale of the investment in ENRC of \$875 million, the net cash proceeds from the disposal of MKM of \$27 million, proceeds from the disposal of various other assets of \$38 million and the payment of the Group's final dividend for 2012 of \$42 million. During 2012, investing and financing cash flows related to the Group's share buy-back programme 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.

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



- 1 Segmental EBITDA before joint venture and associate
- 2 Impairment losses
- 3 Loss on disposal of associate, subsidiary and other assets
- 4 Working capital movements
- 5 Foreign exchange and other movements
- 6 Non-cash component of the disability benefits obligation
- 7 Interest paid
- 8 Interest paid
- 9 MET paid
- 10 Sustaining capital expenditure
- 11 Free Cash Flow

Balance sheet

The Group's capital employed position at 31 December 2013 is shown below:

\$ million	2013	2012
Equity attributable to owners of the Company	4,217	6,259
Non-controlling interests	4	6
Borrowings	3,111	2,468
Capital employed	7,332	8,733

Summary of movements

The Group's attributable loss for the year, mainly related to discontinued operations, the share repurchase on the sale of ENRC of \$319 million, a non-cash loss of \$94 million mainly recognised in the foreign currency translation reserve and returns to shareholders of \$42 million during the year have led to a \$2,042 million decrease in equity attributable to holders of the Company to \$4,217 million at 31 December 2013.

Disability benefits obligation

The Group's disability benefits obligation, which is the largest portion of the overall employee benefits obligation, has grown substantially following changes in Kazakhstan legislation which significantly increased the level of disability payments to be made by companies to disabled employees. During 2013, the Group also agreed to meet the future disability payments that were previously insured as the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. Following this decision by the Group, the existing insurance policy to cover the 2013 future disability payments has been included in the disability benefits obligation net of a corresponding insurance asset for the insurance premiums.

The net employee benefits obligation at 31 December 2013 was \$530 million compared to \$373 million at 31 December 2012, a net increase of \$157 million. The increase is principally attributable to an income statement charge of \$203 million, \$27 million recognised directly in other comprehensive income, offset by cash payments of \$52 million to beneficiaries and \$13 million for the plan asset. The income statement charge comprises the assumption of previously insured disability payments of \$84 million, treated as a special item, the current service charge of \$19 million, interest on the employee benefits obligation of \$26 million and \$74 million of actuarial valuation movements.

ENRC

The Group's 26% investment in ENRC had a carrying value of \$2,027 million at 31 December 2012. On 8 November 2013, it was disposed of for net proceeds of \$1,194 million. The movement during the year represents the Group's share of the post-tax profits to 8 November 2013 of \$65 million, which was offset by the Group's share of losses recognised in equity of \$75 million, an impairment charge of \$823 million and its net disposal proceeds of \$1,194 million.

Ekibastuz GRES-I

The investment in the Ekibastuz GRES-I joint venture is included on the Group's consolidated balance sheet at 31 December 2013 as an asset classified as held for sale at its equity accounted carrying value of \$1,004 million on 5 December 2013, the date the Group accepted an offer for its sale for net proceeds of \$1,249 million. As at 31 December 2012, its carrying value was \$927 million. The increase during the year represents the Group's share of the post-tax profits to 5 December 2013 of \$89 million less the Group's share of losses recognised in equity of \$12 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	2013	2012
Cash and cash equivalents	1,715	1,246
Current investments	625	515
Borrowings	(3,111)	(2,468)
Net debt	(771)	(707)

Cash and cash equivalents and current investments of the Group's continuing businesses as at 31 December 2013 were \$2,340 million, an increase over the \$1,761 million as at

31 December 2012, principally due to the receipt of proceeds from the sale of ENRC and draw downs under the Group's major financing facilities. Of the cash and cash equivalents and current investments, approximately \$1,120 million has been drawn under the CDB/Samruk-Kazyna financing facilities and \$7 million under the CDB Aktogay finance facility. These facilities are 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 'AAA' rated liquidity funds. At 31 December 2013, \$2,221 million of cash and short-term deposits were held in the UK and \$116 million in Kazakhstan.

Gross borrowings of the Group's continuing operations increased from \$2,468 million at 31 December 2012 to \$3,111 million at 31 December 2013 (net of arrangement fees), as a result of the final \$200 million draw down under the \$2.7 billion CDB/Samruk-Kazyna financing facilities, a \$57 million draw down under the CDB Aktogay financing facility and a \$500 million draw down under the pre-export finance facility. Scheduled repayments totalling \$107 million were also made under the CDB/Samruk-Kazyna facilities. The Group had net debt of \$771 million at 31 December 2013 compared to \$707 million at 31 December 2012.

The CDB/Samruk-Kazyna financing facilities carry interest at US\$ LIBOR plus 4.80% and the pre-export finance facility carries interest at US\$ LIBOR plus 2.80%. The CDB Aktogay finance facility consists of two separate agreements: the US dollar agreement for up to \$1.3 billion and the RMB1.0 billion agreement (\$165 million equivalent at the RMB/\$ exchange rate as at 31 December 2013). 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.

Borrowings under the CDB/Samruk-Kazyna financing facilities were \$2,568 million (excluding amortised fees) compared to \$2,468 million at 31 December 2012. Funds drawn under these facilities can only be used for development costs of the projects to which they relate. In January 2014, the Group repaid early \$400 million under the CDB/Samruk-Kazyna financing facilities relating to the Akbastau-Kosmurun and Zhomart projects, as development of these projects is not expected to commence in the near future.

As at 31 December 2013, the Group had a \$100 million revolving credit facility available for standby liquidity and general corporate purposes. This facility has remained undrawn since inception. In addition, the Group had \$1,443 million under the CDB Aktogay financing facility available to be drawn down.

Analysis of net debt (\$ million)



- Borrowings
- Cash and cash equivalents
- Current investments

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 2013, the Group paid \$689 million (2012: \$772 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 \$551 million (2012: \$607 million) of this total. In addition, the Group indirectly contributed \$138 million (2012: \$165 million) in employee taxes and withholding taxes primarily on services, which the Group collected on behalf of government authorities and paid over to them.

\$ million	Central Asia ¹	UK	Germany	2013 total	2012 total
Taxes paid					
Corporate income taxes	109	7	1	117	209
Mineral extraction tax	259	–	–	259	199
Payroll taxes (employer's obligations)	71	3	4	78	78
Customs and stamp duties	2	–	–	2	30
Taxes on properties	17	–	–	17	22
Environmental payments	74	–	–	74	66
Miscellaneous taxes	4	–	–	4	3
	536	10	5	551	607
Taxes collected and remitted					
Withholding taxes on interest and services	4	–	–	4	23
Payroll taxes (employee's obligations)	122	4	8	134	142
	126	4	8	138	165
Total	662	14	13	689	772

¹ Includes Kazakhstan and Kyrgyzstan and 100% of the Ekibastuz GRES-1 joint venture for the period to 5 December 2013 and for the year ended 31 December 2012.

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 176. 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 with inherent risks 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 18 fatalities recorded for 2013 (2012: 19).

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 \$530 million (2012: \$373 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 53.

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, the option of selling concentrate 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.

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 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.

New projects

Risk description

The development of new projects involves many risks including geological, engineering, procurement, staffing, 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. In 2013, the Group appointed Non Ferrous China to provide additional resources to the Bozshakol project, focused on the construction and commissioning of the processing plant. The Group is assessing the Aktogay project and plans to replace the principal contractor with several smaller contracts in 2014. 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. Details on the progress the Group is making with the major projects are included in the Operating Review on page 34.

Change management

Risk description

The Group is taking action to cut costs and review discretionary capital expenditure in order to improve the profitability and operating cash flows of the business. An optimisation programme and asset review commenced in 2013 which has resulted in operating cost and capital expenditure savings. Certain production assets and medium-sized projects have been suspended and impairments of \$670 million have been recognised, including \$596 million in respect of operating Zhezkazgan mines. The optimisation programme and asset review are progressing in 2014, continuing the assessment of production assets and potential labour, material usage and supply chain efficiencies. The asset review could lead to the divestment of certain operations.

Impact

The optimisation programme and asset review may not result in the expected benefits being achieved and may itself lead to increased operational risks and additional costs being incurred. A change in use of assets, or revised expectations of their future economic potential,

could result in impairment charges being recognised. The divestment of certain operations could result in accounting losses on their disposal and increase the Group's financial gearing. The optimisation programme, asset review and potential divestment of certain operations may adversely affect other initiatives, operational results and negatively impact labour, community and Government relations. Further information on the potential impact of the divestment of certain operations is included under the 'Acquisitions and divestments' risk.

Action

The Group has formed a cross-functional project team, supported by external advisors, to lead the optimisation programme, asset review and assess the potential divestment of certain operations, which is overseen by the Board. The Group is engaged with key stakeholders, including representatives of the workforce and the local and national Government. The terms of any divestment of operations would also require approval in accordance with London Stock Exchange Rules.

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 2013, the total cash operating costs of Kazakhmys Mining rose by 7% and impairments have been recognised on certain assets due to their challenging economic outlook.

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 an optimisation programme and asset review underway to improve cash generation and is in active discussions with the Government on further measures to improve the Group's financial performance.

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 wage increases and other forms of compensation, having a material adverse effect on the Group's financial performance. In 2013, labour costs at Kazakhmys Mining rose by 7%. The disability benefits obligation within the employee benefits provision is also linked to current wage rates.

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.

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 has succeeded in raising tariffs for certain of the services it provides to communities with the objective ultimately achieving market rates. The Group works closely with the Government on social matters, which has included the transfer of certain social assets to Government ownership and management. Further details of the Group's social programme are set out in the Corporate Responsibility Report commencing on page 53.

Reserves and resources

Risk description

Kazakhmys' ore reserves and mineral resources for operating mines and development projects are largely based on the estimation method for ore reserves and mineral resources established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves and mineral resources, and geological, technical and economic assumptions that were valid at the time of estimation may change significantly when new information becomes available. A re-assessment of the future economic potential of the Zhezkazgan mines has resulted in the ore reserves associated with these mines being excluded from the statement of reserves and mineral resources.

Impact

Changes in ore reserves and mineral resources 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 168 to 172. 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 ore reserves and mineral resources were last audited in 2010 by an independent technical expert. A project is ongoing to digitise selected mines' ore reserves which will be used in the future for determining estimates of ore reserves and mineral 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 ore reserves and mineral resources 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 legislation, including more active procurement of goods and services from Kazakhstan. In 2013, 68% 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 53.

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, in particular copper and the major by-products, gold, silver and zinc. The prices for these metals 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. In 2013, sales to China accounted for 57% of Kazakhmys Mining's revenues. The proportion of sales into China has increased following the suspension of the Zhezkazgan smelter in 2013 which has led to the sale of concentrate, and Chinese sales are likely to increase further when production commences from the two major growth projects, Bozshakol and Aktogay. The Group uses contractors and materials from China. 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 has historically sold a significant volume of its copper cathode production into Europe, 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 finished products, Kazakhmys would 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 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. Surplus funds within the

Group are held predominantly in the UK in order to manage counterparty and liquidity risk. 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. In 2013, the Group sold its ENRC investment and has agreed the sale of its 50% holding in Ekibastuz GRES-1 for combined cash proceeds in excess of \$2.0 billion. The Group has secured committed funding for the development of Bozshakol and Aktogay. A \$1.0 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 which was \$500 million drawn at 31 December 2013, the date the availability period expired. Further details are set out in the Financial Review on page 46.

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 affect 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 page 47.

Corporate Responsibility in detail

Responsible behaviour supports our business strategy by helping us to manage reputational and regulatory risks, access capital, reduce operational costs, build good relationships with regulators and local communities, and attract and retain talented employees. Acting responsibly also helps to support social and economic development in the communities where we operate – our taxes, employee remuneration, spending and social investment make a significant contribution to the economy of Kazakhstan. Improving our health and safety performance remains our first priority, as safe and healthy working conditions are the minimum our employees and contractors should expect.

The material health, safety and environmental (HSE) risks included in our Group risk management process are described on page 48. This section summarises our performance and significant changes made to our approach to corporate responsibility (CR) in 2013. Performance against our CR KPIs is reported on page 21, with an accompanying message about our priorities and progress from Eduard Ogay, Chief Executive Officer of Kazakhmys Corporation LLC. Our website provides further details of our approach and performance, including case studies, at www.kazakhmys.com/corporate_responsibility.

We continue to develop our internal reporting systems to improve the management of data. We are currently working with external consultants to provide greater assurance over our CR reporting.

Governance and management

Our aim is to run safe and efficient operations that meet regulatory requirements as a minimum, and applicable international standards wherever possible. We take a decentralised approach, with our divisions and business units tailoring our corporate policies and standards to meet local needs, with oversight from the Group.

Responsibility for aspects of CR including health and safety, environmental management and anti-bribery and corruption is integrated throughout our production operations. Ongoing training and communication programmes ensure that all employees understand the policies, standards and working practices they must follow. Our aim is to build a supportive culture that explains, encourages and rewards safe and ethical behaviour.

The Board of Directors has ultimate responsibility for CR, and is supported by a Group Health, Safety and Environment (HSE) Committee. More information about the roles and responsibilities of the Board and HSE Committee is available on pages 72 and 73.

Implementation of our health and safety policies and standards is overseen by a Group Health and Safety Manager. Each division has a dedicated health and safety department, and specialists are on site at each facility. The Group Health and Safety Manager and Operational HR Director work together to strengthen our safety culture and training.

Expert advisors from DuPont continued to assist us in strengthening our safety management and performance. For example, in 2013, DuPont helped us to further integrate health and safety into our management structure at every level, from the Board of Directors down. This is increasing involvement in, and accountability for, health and safety management, and improving the information flow in both directions. Our website provides further details of organisational structures and accountabilities.

Health and safety

Improving our safety record remains our absolute priority. In 2013, we spent approximately \$40 million in this area and continued to integrate industry and international best practices into our production operations. We remain focused on the six key areas of roof collapse, contact with energy sources, ventilation, personal protective equipment, training and skills, and pedestrian safety. We reinforce our safety culture at every opportunity.

All business units now carry out regular behavioural audits, which assess whether employees are wearing the correct protective equipment and following the correct procedures when performing their jobs. The audits are designed to explain and encourage the correct behaviour, and to put in place corrective action plans where necessary.

To provide visible results and make all employees accountable for their safety, we encourage them to look for 'quick wins' – simple actions that make the workplace safer. Examples include storing tools tidily and in the right location.

Following a month-long pilot project at two sites in Zhezkazgan and the East Region, we have begun the company-wide rollout of a hazard-spotting programme to make this activity routine for all employees. After the pilot, employees were noticeably more likely to spot hazards, and compliance with our safety standards improved. Every employee is expected to assess risks in their immediate workspace at the beginning of their shift, and should not start work if they identify a hazard that cannot immediately be made safe.

All operational employees receive 40 hours of mandatory safety training each year, which is a legal requirement in Kazakhstan. We also continue to roll out more detailed training, developed with DuPont, on our corporate safety standards. This training focuses on line managers, so they can cascade their safety knowledge down to their teams. Specialists from DuPont have assessed which of our facilities are now fully capable of delivering the training without external help, so that DuPont can focus on sites most in need of support.

We believe that the understanding of our safety principles and implementation of safe working standards is core to the success of our health and safety programme. In Zhezkazgan, we have begun testing understanding of our standards to assess the effectiveness of our training. Employees have one month to prepare for the test, and those who fail are given ten days before resitting it. Employees who fail twice face disciplinary action.

As well as supporting the roll out of safety training, in 2013, a separate team from DuPont began to conduct site visits to check compliance with our safety standards. The compliance checks will continue in 2014.

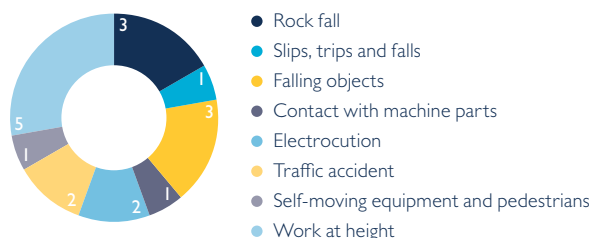
Fatalities

We are sorry to report that 15 employees and three contractors died while working at Kazakhmys this year, compared with 15 and four respectively in 2012. We continue to work hard to prevent further fatalities and view every fatal incident as avoidable.

Our focus on reducing incidents involving rock falls is showing improvement in this area. Historically, this has been the most common cause of fatal incidents. In 2012, seven out of 19 fatalities in total resulted from rock fall. In 2013, this figure reduced to three fatalities, or 17% of the total number for both our employees and contractors. This is the result of installing additional roof supports, as well as improved hazard awareness among our employees. Detailed inspections of roof conditions and identification of risks upon entering underground areas is becoming common practice at our operations.

Falls from height were the most common cause of fatalities in 2013. We are strengthening our efforts to enforce our corporate safety standard for working at height.

Fatalities by cause



Incidents and injuries

Our lost-time injury frequency rate (LTIFR) increased from 1.80¹ in 2012 to 1.84 in 2013. The total number of lost-time injuries among our employees has seen a slight reduction from 174 in 2012 to 172 in 2013. However, total hours worked have reduced by a larger amount following the suspension of operations at our Zhezkazgan smelter and the concentrator in Satpayev, resulting in an increase in LTIFR. We also continue to see improvements in incident reporting and investigation, which resulted in more cases being registered. This is a positive development that we believe will underpin future improvements in our safety performance.

Reporting of minor incidents is still increasing as measures to encourage this take effect. For example, a sealed first aid box is sent into every mine for every shift. Breaking the seal prompts the reporting of an incident at the end of a shift.

There has been an increase in traffic incidents in 2013. Road transport is provided by a contractor and we have requested a number of measures to reverse the poor performance. All vehicles are now equipped with GPS devices that allow for centralised monitoring of driver speeds, and any driver breaking the speed limit is subject to disciplinary action, including dismissal in severe cases. We also request for all cars to be equipped with studded tyres in snowy and icy weather, and have made it mandatory for all passengers to wear a seatbelt in the front and back of the car. Drivers will be held responsible if their passengers are not wearing a seatbelt.

¹ We have restated the LTIFR for 2012 to exclude contractor man-hours at Ekibastuz GRES-1

Occupational health

Risks to workers' health such as those from noise, vibration, temperature, lighting and radiation are assessed carefully. Employees working in an environment that puts them at greater risk of dust-induced lung disease, hand-arm vibration syndrome or circulatory disorders are monitored more closely. All employees have a medical examination when they join the company and then on an annual basis to prevent occupational diseases and to diagnose and treat any problems as soon as they occur.

Environment

In 2013, the Government of Kazakhstan announced its intention to operate a green economy by 2050, with an initial focus on optimising resource use and improving environmental performance. As a result, we expect a change of legislation over the coming years in areas including emissions to air, water resources, energy efficiency and waste management.

Kazakhmys supports the Government's vision, and we are developing an environmental strategy for the next three years. In addition to existing energy efficiency programmes and emissions reduction measures, the strategy will include new initiatives for managing water and resource consumption as well as reduction of waste. In 2014, we will join the Government's consultation process on a roadmap for implementing its new requirements and ensure our strategy is aligned to this.

While the new measures are under consultation, we will maintain our existing programme of environmental risk assessment and management to ensure our performance continues to improve and that each business unit meets current regulatory requirements.

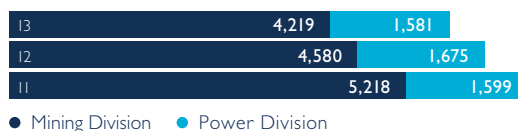
Energy use

In 2013, we continued to implement our Group-wide energy efficiency plan to ensure we contribute to the Government's target of reducing energy use in Kazakhstan by 25% by 2020. By the end of the year, we completed detailed energy audits at our smelters and implemented around 50% of the resulting energy efficiency measures. These measures include installing or upgrading meters to enable more accurate reporting on energy use, as well as efficiency measures such as upgrading equipment and adjusting schedules to optimise equipment use. Audits and energy efficiency plans will be fully implemented in 2015, with a view to be certified to the ISO 50001 international energy management standard. We will set energy saving targets for the business once all energy audits are completed.

In 2013, Group-wide energy use was 5,800 GWh, 7% lower than in 2012. This breaks down into reductions of 8% in the Mining Division and 6% in the Power Division. The drop in usage is primarily the result of lower production output at Ekibastuz GRES-1, and the suspension of one of our smelters and a concentrator in the second half of 2013. We anticipate further reductions as our energy efficiency programme takes effect.

Power generated at Ekibastuz GRES-1 is sold to third parties and is not used in copper production. Due to reduced demand, the amount of both gross power generated and power sold to third parties fell by 11%. The captive power plants that supply our mining operations also sell roughly half of the energy they generate to third parties. This rose in 2013 from 2,098 GWh to 2,366 GWh.

Operational energy use (GWh)



Greenhouse gas emissions

	2013	2012
CO ₂ e emissions		
Mining Division (tonnes)	2,382,672	2,731,319
Power Division (tonnes)	23,330,496	25,139,619
CO ₂ e emissions		
Group total (tonnes)	25,713,168	27,870,938
CO ₂ e emissions normalised to		
Group revenues (tonne/US dollar)	0.007	0.007

Total carbon dioxide equivalent (CO₂e) emissions for the Group totalled 25.7 million tonnes, 8% less than in the prior year. The reduction is driven by the suspension of the smelter in Zhezkazgan, lower power output at Ekibastuz GRES-1 and more efficient fuel consumption at our captive power stations. Total CO₂e output for the Mining Division decreased 13% to 2.4 million tonnes, the Power Division reported a 7% decrease to 23.3 million tonnes. Emissions reported for the Power Division include those resulting from the generation of energy sold to third parties, as well as those arising from operational energy use.

In 2013, we announced the disposal of Ekibastuz GRES-1, which accounts for more than 50% of our CO₂e emissions. Total emissions from the Mining Division and our captive power stations amounted to 11.7 million tonnes.

This year, we are reporting emissions intensity for the first time. Due to the very different nature of our Mining and Power Divisions, we believe reporting emissions per unit of revenue, rather than copper output, represents a more accurate measure. Group revenue (including 100% of revenue from Ekibastuz GRES-1) amounted to \$3,595 million in 2013 and \$3,933 million in 2012. Group-wide emissions intensity was 0.007 tonnes/US dollar of revenue in 2013, in line with 2012 levels.

We collect and calculate Scope 1 emissions data based on the methodology approved by the Ministry of Environment of Kazakhstan as of November 2010, which is in turn based on the Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories. We have no material Scope 2 emissions as the power used during mining and copper production is generated in-house. Global warming potentials are taken from the IPCC Second Assessment Report.

In 2013, the Government of Kazakhstan piloted its greenhouse gas emissions trading scheme by requiring companies to monitor and report emissions, without trading. Under the scheme, we are required to submit our annual emission reports for external verification, prior to delivering them to the regulator. We expect carbon prices and quotas to be set based on our greenhouse gas emissions inventory for 2013, which we will submit in May 2014. Trading is unlikely to begin until 2015.

Emissions to air

Our operations produce substantial amounts of sulphur dioxide (SO₂), nitrogen oxides (NO_x), ash, as well as low levels of airborne dust, which contains traces of arsenic. These emissions are one of the most direct impacts we have on local communities, and we continue with our programme of equipment upgrades to reduce them.

In 2013, SO₂ emissions for the Group totalled 214,123 tonnes, compared with 258,877 tonnes in 2012. We seek to maintain low levels of SO₂ by capturing emissions from our smelters in Balkhash and Zhezkazgan and transforming them into sulphuric acid. At 68,573 tonnes, emissions from the Mining Division were 34% lower than in 2012, which was largely driven by the suspension of the smelter in Zhezkazgan from September 2013. The Power Division produced 52,630 tonnes of NO_x, compared with 55,246 tonnes in the prior year. NO_x output for the Mining Division decreased by 6% from 2012 to 1,301 tonnes, largely due to warmer weather conditions which resulted in lower fuel consumption.

Total ash emissions for the Group fell by 32% in 2013, to 83,138 tonnes. The Mining Division produced 2,770 tonnes, compared with 3,464 tonnes in 2012, largely due to warmer weather conditions which resulted in lower fuel consumption at our operations. The Power Division reduced ash emissions by 32% to 80,368 tonnes, from 118,519 tonnes in 2012.

Total ash emissions (tonnes, Power Division only)

13	80,368
12	118,519
11	141,304

Ash emissions continue to reduce in the Power Division as a result of the installation of new electrostatic precipitators at Ekibastuz GRES-1. In 2013, we installed two additional precipitators, bringing the total in place to six.

We have also installed two further emulsifiers at our captive power plants in Balkhash and Karaganda. By 2017, the Karaganda power station will have emulsifiers on all 16 boilers, each capturing approximately 2,000 tonnes of ash.

Water

In 2013, the Group used 3.3 million megalitres of water in total, in line with 2012. Of this, 2.4 million megalitres was recycled process water, which is captured and reused multiple times. A further 863,055 megalitres was surface water that we draw directly from lakes, rivers and reservoirs. This is an 8% increase on surface water withdrawal compared to 2012, which is driven by higher power generation at our captive power plants. The remaining 53,806 megalitres (under 2% of our total usage) came from potable water sources such as groundwater, springs and municipal systems that we share with the local community.

Our new, three-year environmental strategy will include a water management plan, which we aim to roll out across the Group to increase accountability for water use at an operational level.

Waste

The waste management plans we drew up in response to new legislation introduced in 2012 to reduce waste and control its disposal are currently under Government review. We will implement these plans, which include measures to increase reuse and recycling and ensure responsible disposal of remaining wastes, as soon as they are approved.

In 2013, the Group produced 126 million tonnes of waste, of which 23% was reused or recycled. The recycling rate dropped from the 30% we reported in 2012 due to less rehabilitation work at sites, where overburden is typically used for finished sections. The majority of waste produced at our operations is overburden, tailings and ash from the Mining Division. Most other waste streams are sent to contractors for recycling, and we also reuse some materials internally. For example, construction waste and overburden are currently being used to build dams and to upgrade the land surrounding switchgear at Ekibastuz GRES-I.

Employees

A skilled workforce is critical to the future of our business, and we aim to offer attractive careers at all levels. As a minimum, we are committed to providing fair, safe and secure working conditions in line with the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

The optimisation of our business has brought changes for many of our employees, and we are providing support for those who are affected. The optimisation process focuses firstly on reducing other operational costs, with headcount reductions only taking place where necessary. Where employee numbers are being reduced in Kazakhstan, this is done based on industry benchmarks of the number of people needed to perform an operation and in compliance with local regulation. We have provided sufficient notice of changes to employment contracts, giving people whose jobs are at risk an opportunity to find a different role. Internal communications kept our employees informed about the changes and the reasons behind them.

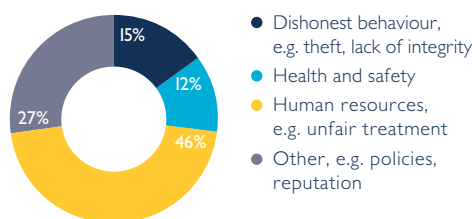
Ethics and compliance

All employees in relevant positions have now received training on our anti-bribery and anti-corruption policy, and we are introducing further measures to embed an ethical culture. In 2013, our internal audit team and ethical business specialists GoodCorporation conducted an audit in one region to assess progress with our anti-bribery and corruption programme. The results show improvement, with some areas that require further attention. These include formalising a number of our procurement procedures to improve transparency.

Other plans for 2014 include requiring senior managers to sign up to our ethical policies, carrying out bribery and corruption risk assessments, and developing a clear government relations policy. We also plan to revise the way we carry out due diligence on contractors.

In 2013, there were 26 calls to our independently-run and confidential Speak Up helpline for people to report concerns about unethical practices. The largest number of these reports (31%) related to unfair treatment at work and four calls, or 15%, were concerns about dishonest behaviour. All reports are investigated and appropriate actions taken where necessary.

Calls to Speak Up helpline by category



Training and development

We provide training and development opportunities to all our employees, to incentivise them to stay and progress within the business. In 2013, our employees received 44 hours of training each on average. This includes regulated health and safety training, as well as additional professional development and further education. We are improving the internal reporting procedures to include other types of training and professional development, such as, for example, safety training provided by DuPont. We hope to include this data in future.

Following the completion of our High Potential Programme in 2012, we continue to monitor the progress of its participants. Seventy two of the originally selected 100 candidates are still on the follow-on programme, with many showing progress in their roles since taking part. We are currently developing a new programme for mine supervisors and site managers. The course will comprise a mixture of classroom and job-based training with a view to create a skilled operational management reserve focused on modern and efficient production. Areas of focus will include technical and health and safety skills, as well as finance, project and human resource management.

In 2013 we also piloted a programme of behavioural assessments to better understand how to ensure all employees follow the correct working practices and safety standards. A cross section of 454 employees from different roles across the Group sat a computerised test. This comprised randomly selected multiple-choice questions in three areas: knowledge of our corporate safety standards, of legislation, and of safe working practices in their particular role. We are using the results to assess where and how we can provide greater support to help people work more safely.

Pay and benefits

We aim to reward our employees fairly and have a competitive remuneration system in place that incentivises safety as well as productivity. Mining professions are highly paid compared with other industries in Kazakhstan, and benchmarks show that Kazakhmys offers competitive remuneration to operational staff.

Each operational employee's monthly salary comprises 70% base pay and 30% bonuses. Of the bonus payment, half depends on achieving health and safety performance targets, and the rest is based on production targets. In addition, each bonus has a team performance element, to ensure employees work together to achieve high levels of safety and productivity. Bonuses for divisional heads are based on health and safety performance, compliance with Government-set environmental targets and the amount of environmental fines incurred, as well as production efficiency and cost control. In the case of a severe accident or a fatality, bonuses are withheld for everyone in the affected team.

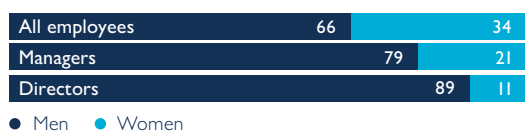
In accordance with Kazakh law the Group is required to make payments to employees and former employees for illness and disability sustained at the Group's operations. The financial impact of this is covered in the Financial Review and the Consolidated Financial Statements.

Equality and diversity

The majority of our workforce in Kazakhstan is local, and we employ international expertise only where necessary to transfer skills and best practice in the longer term. In 2013, 99% of employees within the Mining Division were Kazakh nationals.

We maintain a high level of gender diversity for the mining industry – in 2013, 34% of our employees were women. This proportion is particularly high in engineering and technical roles (58%), but is lower at management level, where 21% are women. The appointment of Lynda Armstrong as a non-executive Director of Kazakhmys PLC in October 2013 introduced the first woman to our Board, bringing female representation to 11%.

Gender diversity (%)



Consultation and communication

We respect the right to freedom of association and consult our employees and trade unions about changes to our business and employment conditions.

The majority of our employees are members of Kasip Kazakhmys, the union created in 2012 on the initiative of Kazakhmys workers. The union also has around 14,000 external members. The Trade Union of Mining & Metallurgy Workers of the Republic of Kazakhstan and Dostoiny Trud also represent some employees. In addition, our Youth Union had over 20,000 members this year.

In 2013, the trade unions consulted with management on the aspects of our business optimisation programme that affect employees. The unions also worked with employees to explain the changes and help them find and transfer to vacant positions elsewhere in the Group. Other issues that unions were consulted on included the revision of some of our bonus structures. The unions also facilitate discussions with employees who have raised disputes over issues such as unfair dismissal or wages. In 2013, there were 10 such cases. The unions are also involved in monitoring our health and safety practices.

Communities

Kazakhmys contributes to the economy and communities in Kazakhstan by creating jobs, paying taxes, investing in infrastructure, using local suppliers and supporting the development of small and medium-sized businesses. We respect the rights of anyone coming into contact with our business. For instance, we consult local communities during project development, and about major operational changes that may affect them, such as transferring ownership of social facilities to local governments and community groups. We also respect and protect local heritage and culture.

Economic development

In 2013, we sourced 67% of our goods and services from companies based in Kazakhstan. This amounted to spending of almost \$1.3 billion¹ with local suppliers.

We continue to help diversify the local economies and employment opportunities in Zhezkazgan and Balkhash by working with a supplier association in each region. The associations have 92 members employing 4,500 people in total. In addition to providing loans and guaranteed sales, we support association members in ways such as deferring loan repayments, or allowing loans to be repaid with product rather than cash. Our support for a uniform supplier has enabled the company to expand into managed laundry services. In 2014, the company will take responsibility for Kazakhmys' uniform stock, laundering and replacing items as well as supplying them.

Our efforts to boost the Kazakh economy were recognised with a national award for local content development for the second consecutive year.

¹ Including spending at Ekibastuz GRES-1.

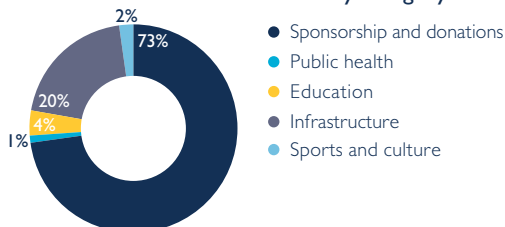
Social investment

The Mining Division's total social investment, including voluntary spending and spending under licences, was \$57 million in 2013, compared with \$52 million in the previous year. Our social investment programme prioritises projects in education, sports and culture, local infrastructure and public health.

Projects carried out in 2013 include the ongoing construction of a town square and monument in Satpayev and the construction of a new kindergarten for 100 children near our mine in Jambyl province in southern Kazakhstan and a gift of 16 ambulance cars to the regional health service in Karaganda.

The transfer of ownership of the social facilities the Group inherited with its operations is well underway. In 2013, 23 assets were transferred in total. Of these, 11 were sold, 10 were transferred back to the Government and two were outsourced. Ownership of around 90 further assets will be transferred in 2014 and 2015. We seek to ensure that the transfer of these facilities does not affect their use by our employees, and try to provide preferential terms of use in cooperation with new owners where possible. Sales of assets to third parties are conditional upon the new owners retaining the employees.

Breakdown of social investment by category



Please visit our website for more details about social investment and all our other CR issues and activities: www.kazakhmys.com/corporate_responsibility.



Bozshakol
Construction work on the primary crusher.



Governance Report

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Governance Framework

This section has been prepared in accordance with the UK Corporate Governance Code (the 'Code'), which applies to the Company's Annual Report and Accounts for the year ended 31 December 2013.

Code compliance

During the year, the Company complied fully with the provisions of the Code, save in respect for: (i) the period when Vladimir Kim was Chairman, as he was not independent at the time of his appointment due to his significant shareholding in the Company, and (ii) after Philip Aiken stepped down from the Remuneration Committee on 31 August 2013 when the membership of that committee comprised two independent non-executive Directors and the committee chairman, Simon Heale. Following the appointment of Simon Heale as Chairman, who was independent at the date of his appointment as Chairman, and the appointment of Lynda Armstrong as a member of the Remuneration Committee on 21 October 2013, the Company complied 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 acts in a way which promotes the long-term success of the Company for the benefit of shareholders as a whole. The Board ensures 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 above. 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 chairs of the respective committees provide detailed reports to the Board on the matters discussed at the committee meetings, 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 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 and commit to the collective decision-making processes of the Board. The Chairman promotes a culture of debating issues openly and constructively and individual Directors are encouraged 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 Group financing;
- major capital investments and projects;
- the annual production and financial budget;
- the Group's risk management strategy and insurance;
- health, safety, environmental and ethical policies;
- the Company's dividend policy;
- the appointment and removal of any Directors or Company Secretary 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.

Further details of the roles and responsibilities of the Chairman, Chief Executive and Senior Independent Director are set out opposite.

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:

- promoting the interests of the Company especially with regard to Group planning and development to secure a progressive future;
- 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;
- chairing the Nomination Committee;
- ensuring comprehensive induction programmes for new Directors and the needs of all Directors are identified and met;
- ensuring the performance of the Board, its committees and individual Directors is formally evaluated;
- 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; 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:

- ensuring the creation and maintenance of a safe working environment and a safety-focused culture within the Group's operations;
- leading the management team in the day-to-day running of the Group's business, including chairing meetings of the Executive Committee;
- developing the Group objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- establishing and maintaining an organisational structure that will enable the Group's strategy to be implemented effectively;
- responsibility to the Board for the performance of the business consistent with agreed plans, strategies and policies;
- developing through investment and divestment an appropriate asset base for the Group to execute its strategy;
- developing and promoting effective communication with shareholders and other interested parties;

- ensuring 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;
- 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;
- 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;
- developing and maintaining an effective framework of internal controls over risk in relation to all business activities;
- managing the Group's risk profile in line with what is deemed acceptable by the Board;
- recommending to the Board an annual budget and medium-term financial and production plan; and
- ensuring the flow of information to the Board is accurate, timely and clear.

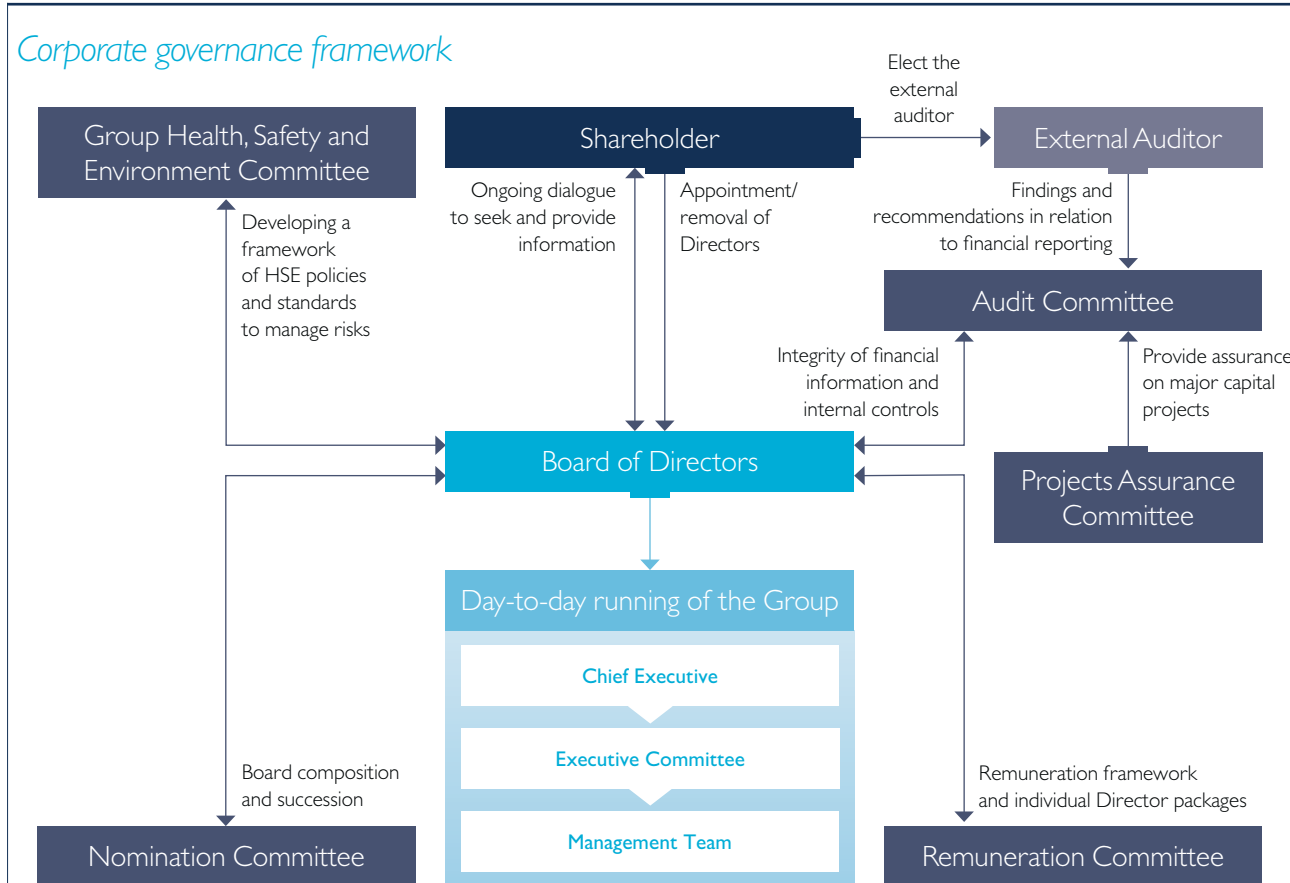
Senior Independent Director

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 2013;
- 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.

Non-executive Directors

The non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the stewardship of the Company's affairs, the non-executive Directors fulfil a vital role in corporate accountability. They have a particular responsibility to: constructively challenge the strategies proposed by the executive Directors; scrutinise the performance of management in achieving 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.



Effectiveness

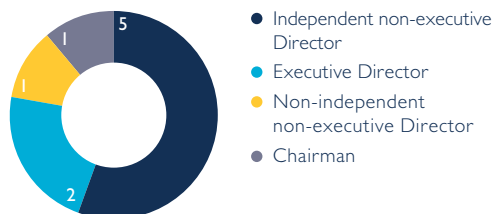
Composition of the Board

Effective management and good stewardship are led by the Board, which currently consists of nine Directors, seven of whom served throughout the financial year, with Michael Lynch-Bell and Lynda Armstrong having been appointed on 27 February 2013 and 21 October 2013, respectively.

In addition to the Chairman, there are five independent non-executive Directors, two 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 24 and 25.

It is Kazakhmys' policy that at least half the Board should be independent non-executive Directors. Other than Vladimir Kim, 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 Lynda Armstrong, Clinton Dines, Michael Lynch-Bell, Lord Renwick and Charles Watson. The Board carries out a review of the independence of its Directors on an annual basis. Vladimir Kim is not considered by the Board to be independent due to his significant shareholding in the Company.

Board composition



The independent non-executive Directors are:

Lynda Armstrong OBE

Appointed to the Board: 21 October 2013

Nationality: British

Skills and experience: Lynda Armstrong, a geophysicist by training, has over 30 years' natural resources experience with Shell. During her time with Shell she held a number of senior exploration and operational roles, including Director UK Exploration and New Business Development, Exploration Director of Petroleum Development Oman and Technical Vice President for Shell International.

Other appointments: Chair of the trustees of the British Safety Council, a non-executive director of Central Europe Oil Company Limited and director of Calyx Consulting Ltd.

Committee memberships: Member of the Group Health, Safety and Environment, 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. He was previously a member of the advisory board of Pacific Aluminium.

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

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

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 Ernst & Young's transaction advisory practice for mining and metals and as an elected member of its global advisory council in June 2012.

Other appointments: Non-executive director of Equus Petroleum Plc, Seven Energy International Limited and Lenta Limited. He is also a board member and treasurer of Action Aid International.

Committee memberships: Chairman of the Audit Committee and member of the Nomination 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, Harmony Gold Mining Company Limited and Bumi plc. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board.

Other appointments: Deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont SA. 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 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.

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

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

Commitment

All Directors are expected to attend each Board meeting and each committee meeting for which they are members, save for exceptional circumstances. Scheduled Board and committee meetings are arranged at least a year in advance to allow Directors to manage 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, they still receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant chairman or the Company Secretary any matters they wish to raise to ensure their views are considered and, if necessary, follow up with the decisions taken at the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters with the Directors. 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 2013 is shown below:

Directors during the year	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
Simon Heale	5	5
Oleg Novachuk	5	5
Eduard Ogay	5	3
Philip Aiken ¹	3	3
Lynda Armstrong ²	1	1
Clinton Dines	5	5
Vladimir Kim	5	5
Michael Lynch-Bell ³	5	5
Lord Renwick	5	5
Charles Watson	5	5
Daulet Yergozhin ⁴	5	2

¹ Philip Aiken stood down as a Director on 31 August 2013.

² Lynda Armstrong was appointed as a Director on 21 October 2013.

³ Michael Lynch-Bell was appointed as a Director on 27 February 2013.

⁴ Daulet Yergozhin stood down as a Director on 5 December 2013.

Eduard Ogay missed two Board meetings and Daulet Yergozhin missed three Board meetings due to commitments with representatives of 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 which focused solely on a review of the Group's strategy and 12 further meetings were also held, mainly in respect of the sale of the Group's interests in ENRC PLC, Ekibastuz GRES-1 and Kazhydrotechenergo LLP. Despite these meetings being held at short notice attendance levels were high.

Development

On appointment, 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, as well as providing 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 in place to provide them with appropriate and timely information, including receiving information between meetings regarding Group business development and financial performance. This enables them to discharge their duties on strategic, financial, operational, compliance and governance issues effectively.

Where appropriate, additional training and updates on particular issues are provided. During the year, the Board received briefings on changes to the Listing Rules, narrative reporting, the Takeover Code and the UK regulatory structure. The Board sought advice from corporate advisers regarding the sale of assets during the year to ensure the transactions were entered into in the best interests of shareholders. All Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal and financial developments or changes in best practice. 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 can attend shareholder meetings and analyst presentations, and shareholders may meet informally with all 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, 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 communication flows between the Board and its committees, and between senior management and non-executive Directors. All Directors have access to the advice from 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

An internal Board performance evaluation process facilitated by the consultant, Lintstock Ltd, was undertaken in late 2013/early 2014 in respect of the 2013 calendar year. The process was carefully structured but pragmatic, designed to bring about a genuine debate of issues that were 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 (excluding Lynda Armstrong who was appointed on 21 October 2013) and the preparation of a composite report. The results of the performance evaluation report were presented and discussed at the February 2014 Board meeting and will be disclosed in next year's annual report and accounts. The last externally conducted Board performance evaluation was conducted in 2011. Lintstock Ltd has no other connection with the Company.

As set out in last year's annual report and accounts, an internal Board performance evaluation process was undertaken in late 2012/early 2013 in respect of the 2012 calendar year. 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, which were completed in 2012.

The Board questionnaire focused on:

- Board composition, expertise and dynamics;
- adequacy of information provided by management and time allocated for discussion;
- performance and composition of Board committees;
- the Board's strategic and operational oversight;
- risk management and internal control;
- succession planning and human resource management;
- the information flow and oversight on the Group's major projects at Bozshakol and Aktogay; and
- the priorities for improving the Board's performance in the future.

The results of the Board performance evaluation report were presented at the May 2013 Board meeting and it concluded that the Board and its committees operated effectively. The main areas identified for improvement were:

- Board and committee composition, with a focus on expertise and dynamics;
- greater analysis of the Company's performance against peers; and
- more exposure to senior management, enabling the Board to better evaluate senior management and provide greater input into succession planning.

During the year, both Chairmen held a number of meetings with non-executive Directors without executive Directors being present. Philip Aiken, whilst appointed as Senior Independent Director, led the evaluation of the performance of Vladimir Kim as Chairman by the non-executive Directors for 2012. Michael Lynch-Bell has also conducted an evaluation of the performance of Simon Heale as Chairman in respect of 2013.

Re-election

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the annual general meeting following their appointment. Lynda Armstrong, having been appointed by the Board on 21 October 2013, will retire and submit herself for election at the forthcoming Annual General Meeting. In accordance with best practice and the Code, all other Directors will be submitted for re-election at the forthcoming Annual General Meeting.

Conflicts of interest

The Companies Act 2006 introduced a statutory duty requiring Directors to avoid situations in which they have or can have a direct or indirect interest that conflicts or 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 authorised in advance.

The Board has a procedure for authorising a conflict or potential conflict of interest. Under this procedure, Directors are required to declare all directorships or other appointments outside of the Group 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 will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider to be in good faith and will most likely promote the Company's success. In addition, the Directors can impose limits or conditions when giving authorisation if appropriate.

The Company Secretary minutes consideration of any conflict or potential conflict of interest and authorisations granted by the Board, and maintains a register of conflicts of interest. On an ongoing basis, the Directors inform the Company Secretary of any new, actual or potential conflict of interest that may arise or, if there are any changes in circumstances that may affect an authorisation previously given. Even when authorisation is given, 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 'Bribery Act')

The Bribery Act established criminal offences for: bribing another person; receiving a bribe; bribing foreign officials; and failures by commercial organisations in preventing bribery. In response to the legislation, the Group has implemented a Group Anti-Bribery and Corruption Compliance Programme to assist in the prevention of the involvement of individuals or Group entities in unlawful activities. The Board has a clear stance on bribery and corruption and attaches the utmost importance to the Programme in clarifying the standards expected of all employees of the Group wherever it conducts business.

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

An independent review of the adequacy of the Programme in meeting the requirements of the Bribery Act was carried out by an external consultant, GoodCorporation, during 2012.

During 2013, outcomes from the external review carried out by GoodCorporation on the Programme were reviewed. The review found that since the Programme was introduced in 2011 many of the important key compliance milestones had been accomplished but provided recommendations for further improvement, including ensuring communication of the Programme was rolled out to the wider workforce and for the programme to evolve into a cross-functional issue. The Group has sought to work on the recommendations and during the year a number of actions were taken to enhance and further embed the Programme.

Accountability

The Board has overall responsibility for ensuring that the Annual Report and Accounts present a fair, balanced and understandable assessment of the Group's position and prospects.

Internal control

The Board is responsible for determining the nature and extent of the significant risks the Group is willing to take in order to achieve its strategic objectives and at the same time maintain sound risk management and internal control systems. The Board has established a Group-wide system of internal control which identifies, evaluates and manages 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 bespoke to the Company's particular needs and the risks to which it is exposed and is designed to manage rather than eliminate risk. Due to the limitations inherent in any system of internal control, this system provides reasonable, but not absolute, assurance against material misstatement or loss. The effectiveness of the Group's system of internal control is reviewed by the Board annually.

The Board confirms that, throughout the year ended 31 December 2013 and up to the date of approval of this Annual Report and Accounts, there have been processes in place to identify, evaluate and manage the significant risks faced by the Group in accordance with the Turnbull Guidance. The Company is aware that the FRC has published, in late 2013, a consultation on proposed changes to the Turnbull Guidance. The Company will review any changes to the Turnbull Guidance when published and amend its internal control and risk management policies and procedures accordingly.

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; set up a framework for reporting matters of significance; 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; 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 to promote 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, compliance 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;
- regular reports to the Projects Assurance Committee on progress against targets of the Group's major projects at Bozshakol and Aktogay; 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 develop the internal control environment where appropriate.

It is Group policy that all acquired businesses are 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 had a 26% shareholding until 8 November 2013, was never 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 Risk Management Overview section on pages 18 and 19.

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, a number of internal audits took place across the Group's operations and functions to facilitate improvement of the Group's internal controls and report findings to relevant operational management. The Head of Internal Audit reports regularly to the Audit Committee and the chairman of the Audit Committee is responsible for reviewing 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 internal audits are 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 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 make themselves available to attend meetings with shareholders in order to develop an understanding of their views. The Company responds as necessary to requests from individual shareholders on a wide range of issues.

There is regular dialogue with key institutional shareholders, 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 2013, 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. 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 where 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.

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 2013 annual general meeting were voted on 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 clearly advises that a 'vote withheld' is not a vote in law and is not used in calculating the 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. The committee memberships are spread between the independent non-executive Directors, drawing on each of their relevant skills and experience.

Committee members are expected to attend each committee meeting, unless there are exceptional circumstances which prevent them from doing so. Only members of the committees are entitled to attend their meetings, but others may attend at the request of the 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.

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
Simon Heale	–	M	C	M
Oleg Novachuk	–	–	–	–
Eduard Ogay	–	–	–	–
Lynda Armstrong	–	M	–	M
Clinton Dines	M	M	–	–
Vladimir Kim	–	–	–	–
Michael Lynch-Bell	C	–	M	–
Lord Renwick	–	–	M	C
Charles Watson	M	C	–	M

C: Chairman of committee

M: Member of committee

Audit Committee



Michael Lynch-Bell, Chairman

Dear fellow shareholder,

My first duty is to thank my predecessor, Simon Heale, for his contribution to the development of the Committee over the course of the last six years. As Chairman of the Company, Simon continues to attend Committee meetings at its invitation and I value his wise counsel.

During 2013, the Committee has reviewed the Group's financial results, including any impairments identified by management, the Group's system of internal control, the management of the Group's risks, as well as monitoring the internal audit function and overseeing our relationship with the external auditor. There have also been a number of transactions which we have considered including the financial effects of the disposal of the Group's interest in ENRC PLC, Ekibastuz GRES- I LLP and Kazhydrotechenergo LLP.

In my role as chairman of the Committee I have met with our external auditors, KPMG, outside of the normal meeting schedule and with various senior managers to increase my understanding of the Group. I intend to continue with this process throughout my chairmanship in order to deepen my knowledge of the Group, the risks it faces and its internal control framework.

Finally, I would also like to acknowledge the excellent work of the Projects Assurance Committee in identifying and monitoring the activities critical to the successful commissioning of the Group's major projects at Bozshakol and Aktogay.

Michael Lynch-Bell
 Chairman, Audit Committee

Responsibilities

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:

Michael Lynch-Bell, Chairman
 Clinton Dines
 Charles Watson

The primary responsibilities of the Committee are set out in the diagram below. Whilst the Committee has very specific duties set out in its terms of reference, it serves a much greater purpose in reassuring shareholders that their interests are properly protected in respect of the Company's financial management and reporting, on which the Committee regularly reports to the Board. The Committee has delegated responsibility to oversee the Company's procedures and systems in relation to risk management, with a focus on the methodology used by management.

Governance

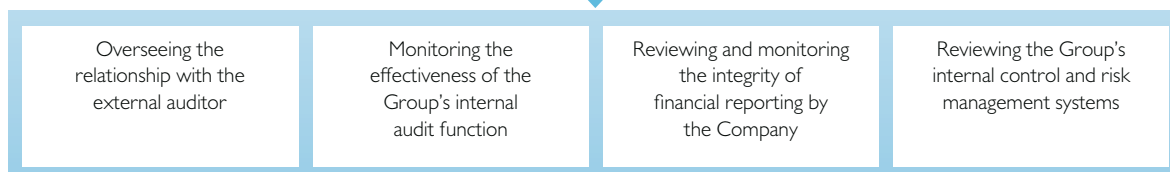
Michael Lynch-Bell has recent and relevant financial experience; his biography is set out on page 24. The other members of the Committee, Clinton Dines and Charles Watson, have broad commercial experience and knowledge of international businesses which they bring to the Committee's deliberations. The Chairman of the Board, 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 meet 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.

Following a formal, competitive tender process for the provision of external audit services conducted in 2012, the Board approved the Committee's recommendation to appoint KPMG Audit Plc as external auditor of the Group.

KPMG Audit Plc has informed the Company that it wishes to formally change the entity which conducts the Company's audit from KPMG Audit Plc to KPMG LLP. Therefore, KPMG Audit Plc will not stand for re-appointment at the Company's forthcoming Annual General Meeting, and instead KPMG LLP will seek appointment as the Company's auditors at this meeting. The Audit Committee has recommended, and the Board has approved, resolutions to be proposed at the forthcoming Annual General Meeting to appoint KPMG LLP as the Company's auditors and to authorise the Directors to set their remuneration.

Audit Committee responsibilities



Attendance at Audit Committee meetings

During 2013, there were seven scheduled meetings of the Audit Committee, including two scheduled meetings which were convened to discuss one item of business only, the financial disclosures in the interim management statements, with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2013
Michael Lynch-Bell	27 February 2013	6/6
Clinton Dines	1 October 2009	7/7
Simon Heale ¹	1 January 2007	4/4
Charles Watson	24 August 2011	7/7

¹ Simon Heale stood down as chairman of the Committee on 17 May 2013 following his appointment as Chairman of the Company and was succeeded by Michael Lynch-Bell.

Role of the Audit Committee

Key roles and responsibilities of the Audit Committee include:

- monitoring and challenging, where necessary, 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.

A copy of the Committee's terms of reference are available on the Company's website (www.kazakhmys.com).

Activities in 2013

At its meetings in 2013, the Committee considered and discharged its responsibilities on the following matters:

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;
- considered impairment reviews performed by management in relation to the Group's investments;
- reviewed the methodology for producing the disclosure of 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 66 and 67 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 mining reserves and resources; and
- received reports from the Projects Assurance Committee.

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 18 and 19, and reports arising out of the risk management process; and
- monitored the Group's significant insurance arrangements and reviewed the Group's insurance broking arrangements.

Internal audit

- approved the annual operational plan and reviewed reports from the internal audit department relating to control matters;
- received a presentation on the results of an internal audit carried out by GoodCorporation on the Group Anti-Bribery and Corruption Compliance Programme; and
- agreed to engage external specialists to assist the internal audit department in connection with specialist audits including anti-bribery and corruption, and health and safety.

External auditor

- 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;
- reviewed the performance and effectiveness of the external auditor in respect of the 2012 financial year;
- assessed the independence and objectivity of the external auditor and in this process reviewed a report from the external auditor on all relationships that might reasonably have a bearing on their independence and the audit partner and staff's objectivity, and the related safeguards and procedures;
- received reports on the findings of the external auditor during their half-yearly review and annual audit and reviewed the recommendations made to management by the external auditor and management's responses;
- reviewed the quality assurance processes of the external auditor;
- considered the report of a review by the FRC's Audit Quality Review Team of KPMG's audit of the Company's financial statements for the year ended 31 December 2012 and challenged KPMG on its findings;
- reviewed letters of representation to the external auditor; and
- recommended the re-appointment of the external auditor.

Other matters

- reviewed reports on changes to UK and Kazakhstan tax legislation;
- reviewed the Speak-Up policy as well as the independent and confidential arrangements in place by which staff may 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 an update from management on the latest technical accounting and regulatory issues;
- approved the appointment of the external auditor to provide non-audit services in relation to the sale of the Group's interest in ENRC PLC, Ekibastuz GRES-1 LLP and Kazhydrotechenergo LLP;
- reviewed its terms of reference and the results of the performance evaluation of the Committee; and
- reviewed the training requirements of the Committee members.

Policy on the provision of non-audit services

The Committee's policy on the use of the external auditor for non-audit services includes the identification of non-audit services which may be provided and those prohibited, and a process through which other non-audit services may be approved. The policy requires any new engagement with the external auditor for 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, with any services up to a limit of £20,000 being approved by the Chief Financial Officer. In addition, any non-audit services in excess of £100,000 must be subject to a competitive tender process.

The policy requires that 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 is 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 2013 and information on the nature of non-audit fees appear in note 13 to the consolidated financial statements on page 128.

Projects Assurance Committee

During 2012, the Audit Committee considered and approved the establishment of a sub-committee, the Projects Assurance Committee, for the purpose of assisting the Audit Committee in procuring third party, independent operational and financial assessments of the Group's major growth projects at Bozshakol and Aktogay. The Projects Assurance Committee currently comprises Charles Watson (chairman), Oleg Novachuk and Lynda Armstrong and met four times during 2013. The significant issues the Projects Assurance Committee considered during 2013 related to reviewing the performance of the contractor at Bozshakol and Aktogay, the appointment of an additional contractor at Bozshakol and the monitoring of capital expenditure at Bozshakol and Aktogay. The chairman of the Projects Assurance Committee reported on its activities to the next Audit Committee meeting following each of its meetings.

Significant issues considered by the Committee

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

Significant issues

Impairments

As the Group's net asset value was below its market value at 31 December 2013, management performed an impairment review of certain of the Group's cash generating units, for which there were indicators of impairment. The impairment review resulted in an impairment being recognised in respect of the full carrying value of the Zhezkazgan Region as well as on specific assets which had been suspended or their intended use changed during the year.

Committee actions

The Committee considered papers setting out the results of the impairment reviews and management's assessment and assumptions. Having received input from the external auditor and challenged the appropriateness of key assumptions used by management in the discounted cash flow models and evaluated the sensitivity of the outcomes of the reviews, the Committee agreed with management's assessment and disclosures.

Determination of ore reserves

As a result of the impairment of the Zhezkazgan Region, management proposed to exclude its ore reserves as they did not meet the definition of JORC compliant reserves.

The Committee considered a paper setting out the results of management's assessment. Having received input from the Group's mining consultants, IMC, the Committee agreed with management's view that the ore reserves of the Zhezkazgan Region should be excluded from the Group's ore reserves as disclosed in the Annual Report and Accounts.

Significant issues

Disability benefits provision

The provision for disability benefits, which is established on an actuarial basis, was re-assessed by management at 31 December 2013 following the failure of previous insurance arrangements, the purchase of a new insurance policy covering 2013 claimants, the addition of new claimants and revisions to the actuarial assumptions.

Committee actions

The Committee considered papers prepared by management outlining the assumptions applied in the actuarial valuation and the recognition of the liability for future disability payments for employees covered by previous insurance contracts. Having challenged management on their proposed approach, the Committee concurred with management's proposed accounting treatment and disclosure.

Disposal of the Group's investment in ENRC PLC

Following the Board's decision to accept the offer from Eurasian Resources Group B.V. to acquire the Group's 26% shareholding in ENRC PLC on 24 June 2013, management proposed that the investment be reclassified as held for sale and impaired by \$823 million to the net sales proceeds. This indicated that the investment may have been impaired prior to acceptance of the offer.

Having considered the broader risks of the transaction not proceeding and the fact that the offer did not reflect the fundamental value of the investment, as assessed by the Directors and the Group's advisors, the Committee agreed with management's assessment of the reclassification, impairment and the associated disclosures.

Sale of Ekibastuz GRES-1 LLP and Kazhydrotechenergo LLP

Following the Board's decision to accept an offer from Samruk-Energo in relation to the sale of the Group's shareholding in Ekibastuz GRES-1 LLP and Kazhydrotechenergo LLP on 5 December 2013, management proposed to reclassify the assets as held for sale and cease to equity account for the Group's share of the results of Ekibastuz GRES-1 LLP from that date.

Having considered the likelihood of the transaction completing within 12 months of the balance sheet date and having received input from the external auditor, the Committee agreed with management's approach.

Excess profits tax

Owing to uncertainties over the recoverability of \$48 million of excess profits tax paid in prior years due to the right to a refund being open to further legal challenge by the tax authorities in Kazakhstan, the Committee considered the accounting treatment of the refund.

The Committee considered a paper setting out the facts surrounding the recoverability of the \$48 million of excess profits tax paid in prior years and concurred with management's accounting treatment and disclosure.

Tax contingencies

Owing to the evolving nature of tax legislation in Kazakhstan, management is required to make judgements and estimates in relation to tax risks, the outcomes of which can be less predictable than in many other jurisdictions. The Committee considered management's provisions for tax based on its best estimate of the probable cash payments needed to settle claims arising from tax audits completed in 2011.

The Committee considered a paper setting out the results of management's assessment. Having received input from the external auditor and challenged the judgements taken, the Committee agreed with management's assessment of the provision to be recognised in respect of tax and uncertain tax positions, and the associated disclosures.

Going concern

The appropriateness of preparing the Group's financial statements on a going concern basis.

The Committee considered papers prepared by management and, taking into account the external auditor's review of the papers and their assumptions, concluded that management's recommendation to prepare the accounts on a going concern basis was appropriate.

Group Health, Safety and Environment Committee



Charles Watson, Chairman

Dear fellow shareholder,

I would like to thank my predecessor, Philip Aiken, for his strong leadership of the Committee over the last five years. Under his chairmanship Kazakhmys has made significant strides to improve health and safety management and develop a safety-first culture. The Committee was strengthened during the year with the appointments of Simon Heale and Lynda Armstrong as members, both of whom bring strong credentials and a challenging and constructive mindset to the activities of the Committee.

Kazakhmys recognises that the highest practicable standards of health, safety and environmental practices are vital to its success and a key responsibility for all employees. The role of the Committee is to assist the Board in overseeing management's processes, standards and strategies for managing health, safety and environmental commitments and responsibilities.

During the year, the Committee's agenda covered a range of health, safety and environmental issues including working at height, roof collapse, contact with energy sources, ventilation, personal protective equipment, training and skills, vehicle management, pedestrian safety, energy use and air emissions. The Committee also addressed leadership behaviour and cultural change issues during its meetings.

Following my appointment as chairman, I undertook a detailed review of the future role and direction of the Committee, involving a questionnaire and interviews with each member, as well as Oleg Novachuk and Eduard Ogay, to ensure the Committee was positioned to meet its remit in an effective manner going forward. This resulted in a number of changes to the format of the Committee meetings which I hope will enhance further its performance going forward.

In line with the Committee's approach to keeping abreast of site operations and procedures, and furthering its understanding of the Group's safety culture, the Committee visited the South Mine, Konyrat Mine and the Balkhash concentrator in 2013. We met with locally based staff and contractors to understand better the risks faced by employees, contractors, the environment and the Group facilities.

Charles Watson

Chairman, Group Health, Safety and Environment Committee

Responsibilities

The current members of the Committee are:

Charles Watson, Chairman
 Lynda Armstrong
 Clinton Dines
 Simon Heale

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 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 2013, with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2013
Charles Watson ¹	16 November 2011	3/3
Philip Aiken ²	11 November 2006	1/1
Clinton Dines	25 August 2010	2/3
Lynda Armstrong	21 October 2013	1/1
Simon Heale	13 March 2013	3/3

¹ Appointed chairman on 1 June 2013.

² Stood down as a Director and member of the Committee on 31 August 2013.

Clinton Dines missed one Committee meeting and provided comments to the Committee chairman and the Company Secretary on matters to be discussed in advance of the meeting missed.

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;
- assessing the impact of health, safety and environmental decisions and actions taken by the Group on its reputation, employees, communities, stakeholders, and ensuring remedial action is taken where appropriate;
- monitoring and assessing the commitment and behaviour of management toward managing health, safety and environmental-related risks;
- reviewing significant safety incidents and considering the key causes, consequences and ensuring actions and communications are made by management to prevent similar incidents occurring in the future;

- facilitate the promotion by management of a culture of care and sensitivity towards the environments and communities in which the Group operates;
- 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.

The Committee's terms of reference are available on the Company's website (www.kazakhmys.com).

Activities in 2013

At its meetings in 2013, the Committee considered, amongst other matters, the following:

- reviewed and evaluated fatal and serious incident reports through the Fatal and Serious Incidents Review Panel;
- reviewed the outcomes of a safety culture assessment conducted by DuPont;
- monitored compliance with environmental permits;
- reviewed a number of energy saving initiatives at captive power plants;
- monitored and evaluated a number of key safety and environmental initiatives (working at height, roof fall, contact with energy sources, ventilation, personal protective equipment, training and skills, vehicle management and pedestrian safety);
- reviewed and evaluated reports on the implementation and effectiveness of a number of health, safety and environmental policies and procedures, as well as assessed performance against the Group's five year health and safety management plan and five year environmental plan;
- monitored the performance of DuPont, third party consultant;
- received reports on matters raised and actions taken in respect of calls made to the Trust Hot Line and the Speak-Up helpline on the process for the investigation of those matters raised, the outcome of the investigation and any actions taken;
- reviewed and provided guidance on changes to the Group's cardinal rules for underground mining, open cast mining, smelters, concentrators and power stations;
- provided guidance to management on the development of a health and safety strategy;
- reviewed its terms of reference and the results of the performance evaluation of the Committee; and
- reviewed the future role and direction of the Committee.

Nomination Committee



Simon Heale, Chairman

Dear fellow shareholder,

I became chairman of the Nomination Committee in May 2013, following my appointment as Chairman of the Company. I would like to thank my predecessor, Vladimir Kim, for his excellent leadership of the Committee since Kazakhmys listed in 2005.

The Nomination Committee has had a very busy year, securing the appointment of two non-executive Directors and recommending to the Board changes to the composition of the Board committees and the appointment of a new senior independent director as well as my recruitment as Chairman. Details of the recruitment process of Michael Lynch-Bell and myself were set out in the 2012 annual report and accounts, with other changes to the Board and its committees set out later in this report.

When recruiting non-executive Directors, the Committee evaluates the particular skills, knowledge, independence, experience and diversity, including gender, that would benefit and balance the Board most appropriately for each appointment. For the recruitment of Lynda Armstrong, Spencer Stuart, who specialise in the recruitment of high calibre executive and non-executive candidates, were engaged to ensure the widest possible pool of candidates was available to choose from. I managed the relationship with Spencer Stuart and they provide no other recruitment services to the Company. Lynda was recommended to the Board on the basis that she fully met the criteria required, including having sufficient time to meet the requirements of the role.

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.

By identifying and recommending candidates with the necessary range of skills and experience as Directors, the Committee aims to ensure that the Board and its committees are fit for purpose and able to meet any challenges that are brought before them.

Simon Heale
Chairman, Nomination Committee

Responsibilities

The current members of the Committee are:

Simon Heale, Chairman
Michael Lynch-Bell
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 with 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, where appropriate, recommends to the Board Directors' conflicts of interest for authorisation.

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 the provisions of the Code. For matters which concern the Chairman, he would remove himself from meetings, and Michael Lynch-Bell would chair.

Attendance at Nomination Committee meetings

There were three scheduled meetings of the Nomination Committee during 2013 with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2013
Simon Heale	1 January 2007	3/3
Philip Aiken ¹	1 November 2006	2/2
Vladimir Kim ²	1 October 2005	1/1
Michael Lynch-Bell	1 September 2013	1/1
Lord Renwick	1 December 2005	3/3

¹ Stood down as a Director and a member of the Committee on 31 August 2013.

² Stood down as a member of the Committee on 17 May 2013.

Role of the Nomination Committee

Key roles and responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including 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 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;
- formulating Board succession planning;
- 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 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.

The Committee's terms of reference are available on the Company's website (www.kazakhmys.com).

Activities in 2013

At its meetings in 2013, the Committee considered, amongst other matters, the following:

- the appointment of a new non-executive Chairman;
- following Philip Aiken standing down as a Director, the appointment of Michael Lynch-Bell as Senior Independent Director;
- the appointments of Simon Heale as chairman of the Nomination Committee and as a member of the Group Health, Safety and Environment Committee, Michael Lynch-Bell as chairman of the Audit Committee and a member of the Nomination Committee, and Charles Watson as chairman of the Group Health, Safety and Environment Committee and a member of the Remuneration Committee;
- following extensive research into potential candidates, Lynda Armstrong was appointed a non-executive Director and a member of the Remuneration Committee in October 2013;
- in accordance with the Company's Articles of Association, recommended to the Board the election of Michael Lynch-Bell and re-election of all other Directors by shareholders at the 2013 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

Lynda Armstrong – New independent non-executive Director

Following Philip Aiken standing down as a Director, the Nomination Committee, led by the chairman, commenced the process to identify a new non-executive Director. Spencer Stuart was appointed as the executive search consultant to assist the Committee in this process. Spencer Stuart has no other connection with the Company.

A formal, rigorous and transparent search process was put in place with a candidate profile and position specification prepared, including time commitment expected and experience required. Spencer Stuart presented the chairman with a list of candidates and the chairman held interviews with a number of candidates. A short list of three candidates was identified and interviews were conducted with the chairman, the other members of the Committee and the Chief Executive.

The Committee put forward their recommendation to the Board and the Board approved the appointment of Lynda Armstrong with effect from 21 October 2013. In accordance with the Company's Articles of Association and the Code, Lynda Armstrong will submit herself for election by shareholders at the forthcoming Annual General Meeting.

The key stages of the recruitment process are set out below.

Recruitment process



Directed by strategy

Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking close account of the principles of the UK Corporate Governance Code in relation to remuneration. The Committee also takes significant account of guidelines issued by the ABI, ISS 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.

The Policy Report will be put to a binding shareholder vote at the Annual General Meeting on 8 May 2014 and, subject to the receiving of majority shareholder support, the policy will operate formally from the date of approval. However, in practice, it is intended that the policy will be applicable to the whole of the 2014 financial year and will remain applicable throughout the three-year policy period commencing from the effective date.

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 is to provide a balanced package with a high proportion of total remuneration being awarded through performance-related elements.

Remuneration Policy table

	Salary	Benefits
Purpose and link to strategy	To attract and maintain high calibre executives taking account of market levels at the date of appointment and on subsequent review	Provide market competitive benefits to help recruit and retain high calibre executives
Operation	<p>Reviewed annually, effective 1 January</p> <p>Any increases take account of:</p> <ul style="list-style-type: none"> • Company and individual performance • Skill set and experience of the executive • External indicators such as inflation and market conditions • Remuneration levels of Group employees, particularly in the UK <p>Where no pension provision is provided an adjustment will be made to salary</p>	<p>Provision of benefits such as:</p> <ul style="list-style-type: none"> • Private medical insurance • Car and driver • Relocation assistance • All employee share schemes • Travel and related expenses <p>Additional benefits such as pension and life assurance may be provided from time to time. The Committee will consider whether the payment of any additional benefits is appropriate and in line with market practice when determining whether and at what level they are paid</p>
Maximum	<p>No prescribed maximum annual increase</p> <p>Salary reviews take account of Company and individual performance</p> <p>The Committee is guided by the general increase for the broader employee population, particularly in the UK, but on occasions may need to recognise, for example, development in role, change in responsibility, and/or specific retention issues as well as the market context</p> <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance</p>	Cost of benefits is not pre-determined

How the views of shareholders are taken into account

The Remuneration Committee actively seeks to engage with shareholders and values highly the contribution their views can make in the process of formulating remuneration policy decisions. The Committee actively considers feedback received from shareholders prior to and following each annual general meeting. It also actively monitors guidance and directional themes emerging from institutional shareholder bodies on the subject of executive remuneration.

This feedback, plus any emerging relevant guidance, is considered as part of the Company's annual review of remuneration policy.

In addition, when it is proposed that any material changes are to be made to the remuneration policy, the Remuneration Committee chairman will inform institutional shareholders and shareholder bodies of these in advance, and will seek feedback which will be considered closely by the Committee.

Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the Annual Report on Remuneration.

Consideration of employment conditions elsewhere in the Group

The Company does not formally consult with employees on executive remuneration. However, when setting the remuneration policy for executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group, particularly those in the UK.

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. 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.

Details of how the Committee has helped to ensure that risk is appropriately mitigated during the year under review are provided in the Annual Report on Remuneration.

Remuneration Policy table

The table below summarises the key aspects of the Company's remuneration policy for executive Directors. The table should be read in conjunction with the rest of the Policy Report.

Annual Bonus Plan	Long Term Incentive Plan	All Employee Share Plans
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	Encourages long-term shareholding in the Company Provides all employees with the opportunity to become owners in the Company on similar terms
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 <ul style="list-style-type: none"> • Payments determined on the basis of a mixture of: <ul style="list-style-type: none"> – Operational performance – Financial performance – Strategic developments Payments scaled back in the absence of an improvement in the Group's safety performance Targets set by reference to the financial and operating plans	Normally granted annually, awards under the Long Term Incentive Plan are rights to receive nil-cost shares, subject to continued employment and relative TSR performance measured over a minimum three-year period Shares arising from an LTIP award must be held for a period of five years from the date of grant The Committee obtains independent external advice to assess whether the Company has met the TSR performance condition at the end of the relevant period The composition of the TSR comparator group is reviewed at least annually by the Committee	Opportunity to participate in UK and International Sharesave and Share Incentive Plans on the same terms as other eligible employees Significant tax benefits in the UK subject to satisfying certain HMRC requirements. The Plans can only operate on an "all employee"/ equal terms basis. The plan operates on a non-tax favoured basis outside the UK as appropriate There are no post grant performance targets applicable to awards
Maximum bonus potential of 200% of salary currently applying only to the CEO, for the achievement of stretching performance objectives Target bonus no higher than 100% of salary currently applying only to the CEO Bonus starts to earn at a threshold level (where 0% of salary is payable) and rises on a straight line basis	Maximum of 250% of salary per annum Normal award policy currently set at 200% of salary per annum	The maximum participation level (for UK-based employees) is as per HMRC limits (see Annual Report on Remuneration for current maximum limits)

Bonus Plan and Long Term Incentive Plan flexibility

The Committee will operate the annual bonus plan and LTIP according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, including flexibility in a number of regards. How the Committee will retain flexibility includes:

- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- Who receives an award or payment.
- How to deal with a change of control or restructuring of the Group.
- Whether an executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and LTIP from year to year.

The Committee also retains the ability within the policy to adjust targets and/or set different measures, and to alter weightings for the annual bonus plan and to adjust targets for the LTIP, if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

The Committee will consult with shareholders in the event of material application of discretion.

All historic awards that were granted but remain outstanding (detailed on page 86 of the Annual Report on Remuneration), remain eligible to vest based on their original award terms.

Choice of performance measures and approach to target setting

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 three 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 for longer-term shareholder return outperformance as measured by the Company's total shareholder return against a comparator group of selected companies. 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.

Further details of the annual bonus measures to be used for 2014 are set out in the Annual Report on Remuneration. The Committee will assess performance against the 2014 measures utilising a scoring system of 0-4 where 0 represents 0% bonus and rising in equal increments so that a maximum bonus is payable for a score of 4. Details of the assessment for 2014 will be disclosed in next year's Annual Report on Remuneration along with details of the payments resulting. However, details relating to strategy and restructuring will not be disclosed if it is felt that such disclosures remain commercially sensitive at that point.

The targets for awards to be granted under the LTIP in 2014 will be consistent with the policy set out above and are set out in the Annual Report on Remuneration.

Shareholding guidelines

All executive Directors are expected to hold shares equivalent in value to a minimum of 200% of their base salary within a five-year period from their date of appointment. The relevant salary is the salary at the date of appointment and the market value is measured at the current date.

Executive Directors are required to hold shares arising from an LTIP award for a period of five years from the date of grant, with only those shares required to cover a tax liability on exercise of an LTIP award permitted to be sold.

Differences in remuneration policy for executive Directors compared to other employees

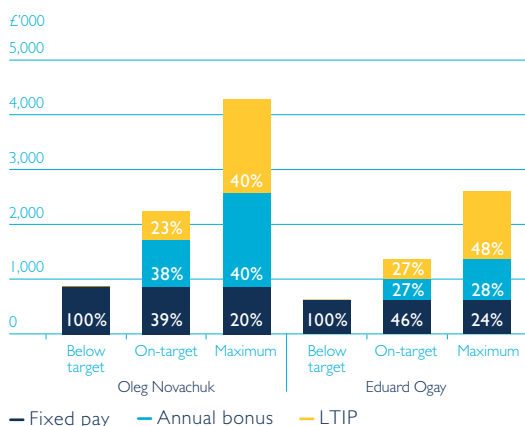
The Committee considers the pay structures across the wider Group workforce when setting the remuneration policy for executive Directors and, in particular, basic pay increases in the last few years have been limited to those which employees in the UK have received. The key difference is that, overall, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees. In particular, long-term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

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 and the performance conditions for LTIP awards are the same as those which apply to executive Directors.

Reward scenarios

The balance between fixed and variable elements of remuneration changes with performance. The remuneration policy results in a significant proportion of remuneration received by executive Directors being dependent on Company 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 around 55% to 60% of remuneration earned is performance-related. At maximum, the weighting of performance-related remuneration increases to around 75% to 80% of remuneration earned. This mix is shown in the chart opposite. This chart is indicative as no assumed share price movement has been included.

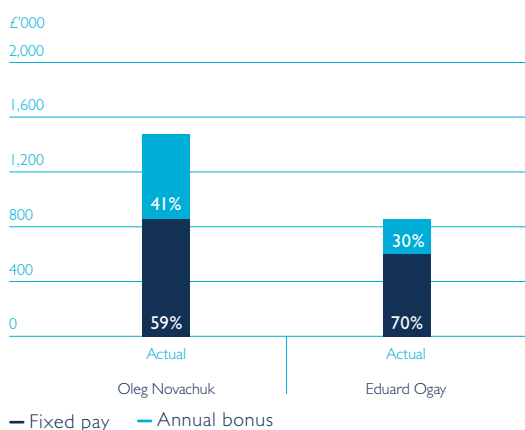
Maximum potential remuneration



The basis of calculation and key assumptions used to complete the charts above is as follows:

- Below target – only fixed pay is payable i.e. base salary and benefits. Base salary levels (on which other elements of the remuneration package are calculated) are based on those applying for 2014 and benefits are based on the estimated cash cost to the Company or the taxable value to the executive Director.
- On-target – fixed pay plus 50% of maximum annual bonus payout and a LTIP award with a face value of 200% of base salary (in line with the normal grant policy) vests at 30% of maximum, being the threshold level of vesting.
- Maximum – fixed pay plus 100% of maximum annual bonus payout and a LTIP with a face value of 200% of base salary vests at 100%.

The chart below sets out the **actual** remuneration for 2013.



I No LTIP awards vested in 2013.

Recruitment and appointment policy

The remuneration package for a new executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. The Committee may offer, in addition, certain cash or share-based elements for the sole purposes of buying out existing awards. Any such payments would be based solely on remuneration relinquished when leaving the former employer and would be used for the specific purpose of recruiting an executive Director key to the

operation of the Company. These payments would not exceed what is felt to be a fair estimate of remuneration lost when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Shareholders will be informed of any such payments at the time of appointment.

In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue.

The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate. In addition, the Committee may agree to provide for tax equalisation for any new appointment.

For the appointment of a new Chairman or non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Service contracts

Service contracts normally continue until the executive Director's agreed retirement date or such other date as the parties agree. 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 Committee will, consistent with best practice, and the interests of the Company and its shareholders, seek to minimise termination payments.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events, such as gross misconduct. The circumstances of the termination (taking into account the individual's performance) are taken into account by the Committee when determining amounts payable as a result of termination. The Committee's normal policy on termination is to make phased compensatory payments and to stop or reduce such payments to former executive Directors where they receive remuneration from other employment during the notice period (where this is consistent with local employment legislation and market practice). Any share-based entitlements granted under the Company's share plans will be determined on the basis of the relevant plan rules. The default treatment is that any outstanding awards lapse on cessation of employment. However, under the rules of the LTIP, in certain prescribed circumstances, such as death, redundancy, disability, retirement, or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure), 'good leaver' status can be applied. In these circumstances a participant's awards vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to decide not to pro-rate if it is inappropriate to do so in particular circumstances. If, however, the termination of employment is not for one of the specified reasons, and the Committee does not exercise its discretion to allow an award to vest, a participant's full awards lapse.

Provision	Summary terms
Notice period	Up to 12 months
Termination payment	Base salary plus benefits. Payments will normally be paid monthly and be subject to mitigation (where this is consistent with local employment legislation and market practice)
Remuneration entitlements	A pro-rata bonus may also become payable for the period of active service along with, under the rules, vesting of outstanding share awards (in certain circumstances – see above). In all cases performance targets will apply

The contract of Oleg Novachuk is terminable by either the Company or the executive on three months' notice. This was granted to him on 26 September 2005. 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. 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.

Chairman and other non-executive Directors' letters of appointment

The Chairman and other 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 other than for the Chairman, who has a three-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.

Chairman's fee

The fee for the Chairman is determined by the Committee, with the Chairman abstaining from any discussion or decision on his fee, and reflects the commitment, demands and responsibility of the role. The fee is paid monthly in cash inclusive of all committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals for the Chairman and his spouse may also be payable in certain circumstances.

The Chairman receives a fee of £300,000 per annum, which he has proposed will be reduced to £275,000 per annum from 1 April 2014. Whilst the fee will not be further varied in 2014 from this level, it may be variable during the remainder of the three-year period that the remuneration policy operates to ensure it continues to appropriately recognise the requirements of the role.

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:

Purpose and link to strategy	To be sufficient to attract, motivate and retain world class talent necessary to contribute to a high performing Board
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Operation	Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with non-executive Directors abstaining from any discussion or decision on their fees
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The Board takes account of recognised best practice standards for such positions when determining the fee level and structure

Fees are paid monthly in cash. Non-executive Directors, except Vladimir Kim, do not participate in any of the Company's incentive arrangements or receive any pension provision

The non-executive Directors receive a base fee, with additional fees payable for chairmanship and membership of the Company's key committees and for performing the Senior Independent Director role. In addition to his base fee, Vladimir Kim receives a salary of £780,000 per annum and is entitled to a discretionary annual cash bonus of up to 120% of salary as executive chairman of Kazakhmys Corporation LLC. The salary and maximum bonus entitlement of Vladimir Kim are reviewed on an annual basis

The fee levels are reviewed on a periodic basis, with reference to the time commitment and responsibilities of the role and market levels in companies of comparable size and complexity

Limited benefits relating to travel, accommodation and meals for non-executive Directors and their spouses may also be payable in certain circumstances

Fee levels

Fees (per annum) from 1 January 2014 are:

- Non-executive Director base fee: £84,000
- Senior Independent Director: £12,000
- Chairs of the Audit and Group HSE Committees: £15,000
- Chair of Projects Assurance Committee: £12,000
- Chair of the Remuneration Committee: £8,000
- Member of the Group HSE Committee: £9,000
- Member of the Audit Committee: £7,500
- Member of the Projects Assurance Committee: £6,000
- Member of the Remuneration Committee: £4,000

The above fee levels may be varied (either up or down) during the three year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases or decreases to fee levels for non-executive directors in general and fee levels in companies of a similar size and complexity

The fees paid to the non-executive Directors for chairing and being members of committees and of the Senior Independent Directors were reviewed in 2013, resulting in the total fees payable being reduced by around 4% per annum

The Board has been taking measures to improve the market capitalisation of the Company. Non-executive Director fees will be further reviewed during 2014 in relation to progress towards that objective

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.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 9.8.6R of the Listing Rules. The Annual Remuneration Report will be put to an advisory shareholder vote at the Annual General Meeting on 8 May 2014.

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 Remuneration Committee

The members of the Committee during 2013 were Lord Renwick (Chairman), Philip Aiken who stood down as a Director on 31 August 2013 and Simon Heale. Charles Watson and Lynda Armstrong were appointed members of the Committee on 17 May 2013 and 21 October 2013, respectively. The Chief Executive is normally invited to attend meetings to provide information and advice to the Committee to enable it to make informed decisions. He is, however, specifically excluded from any matter concerning his own remuneration. Representatives of New Bridge Street, the Committee's retained adviser, also attend meetings by invitation. The Company Secretary attends meetings as secretary to the Committee.

Attendance at Remuneration Committee meetings

The Committee met four times in 2013, with each member attending as follows:

Members	Committee member since	Attendance at full meetings during 2013
Lord Renwick of Clifton, KCMG	1 December 2005	4/4
Philip Aiken AM ¹	1 November 2006	2/2
Simon Heale	1 January 2007	4/4
Charles Watson	17 May 2013	3/3
Lynda Armstrong OBE	21 October 2013	1/1

¹ Stood down from the Committee on 31 August 2013.

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 and institutional investors' current guidelines on executive compensation;
- engaged institutional shareholders and shareholder bodies on the Company's remuneration policy;
- reviewed annual general meeting outcome and feedback from institutional shareholders and shareholder bodies, giving consideration to the implications for future remuneration policy;
- reviewed and agreed the exit terms of Matthew Hird upon his departure as Chief Financial Officer and determined the terms of employment and remuneration of Andrew Southam as the new Chief Financial Officer;
- set, reviewed and agreed to approve 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;
- reviewed and agreed to amend the performance elements of the annual bonus plan for 2014;
- 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 LTIP;
- approved shareholding guidelines for executive Directors;
- reviewed and amended the list of comparator companies for the LTIP;
- reviewed and approved the Directors' Remuneration Report; and
- reviewed the Committee's performance and its terms of reference.

Priorities for 2014

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;
- ongoing training of Committee members; 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.

Management of risk in remuneration arrangements

In 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 at the Company. These include the fact that Simon Heale is Chairman and Charles Watson is chairman of the Group Health, Safety and Environment Committee and the Projects Assurance 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.

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 2013, 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 and on remuneration matters relating to non-executive Directors. No other company within Aon plc provides 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 £51,685. New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct. The Committee regularly reviews the external advisor relationship and is comfortable that New Bridge Street's advice remains objective and independent.

Implementation of Remuneration Policy for 2014

Salary

No increases were made to executive Directors' base salaries in 2012 or 2013. The Remuneration Committee has considered pay increases for the executive Directors and certain senior managers for 2014. In determining these salaries, the Remuneration Committee took into consideration, particularly, 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 2014 which are expected to be within local inflation levels and of the UK workforce of 1.85%. 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, Eduard Ogay and certain senior managers would not be increased in 2014. In addition, there would be no increase in the salary paid to Vladimir Kim as executive chairman of Kazakhmys Corporation LLC.

The base salaries for the executive Directors paid for 2012 and 2013, and payable for 2014, are shown in the table below:

Executive Directors' base salaries

	2012 £000	% increase	2013 £000	% increase	2014 £000	% increase
Oleg Novachuk	856	1.7 ¹	856	Nil	856	Nil

¹ Oleg Novachuk last received an increase in his base salary with effect from 1 July 2011, an increase of 3.5%. No increase was made in 2012 or 2013.

	2012 \$000	% increase	2013 \$000	% increase	2014 \$000	% increase
Eduard Ogay ¹	968	Nil	968	Nil	968	Nil

¹ Eduard Ogay's salary is set in dollars and paid in tenge. In 2013, the basis of currency conversion was changed from a fixed rate to a floating rate at market levels. Whilst his dollar denominated salary has remained unchanged at \$968,000 per annum, the amount paid to him has increased by 17% to KZT 148 million (equivalent to £619,000).

Pension and benefits

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.

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

The maximum annual bonus opportunity for 2014 will remain unchanged from 2013 at 200% of salary for Oleg Novachuk and 120% of salary for Eduard Ogay and Vladimir Kim. The target bonus will also remain at the same level as a percentage of salary at 100% of salary for Oleg Novachuk and 60% of salary for Eduard Ogay and Vladimir Kim. The Committee will continue to review the maximum bonus amount to ensure it remains appropriate.

Following a review of the performance conditions of the annual bonus plan in 2013, the Committee agreed to reduce the number of performance elements from four to three to provide better

alignment with the Group's key business focus of restructuring the core business and the delivery of the Group's major projects at Bozshakol and Aktogay.

For 2014, the annual bonus plan will comprise three discrete elements:

- operational performance;
- financial performance; and
- strategic developments (including development of the major growth projects and objectives relating to restructuring of the core business),

with the first two elements representing 25% each of the maximum bonus potential and the strategic developments element representing 50% of the maximum bonus potential.

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

Specific targets will not be disclosed in advance as they would give a clear indication of the Group's business objectives which are commercially sensitive.

The operational element will be determined on the basis of a rounded assessment of performance against budget for the following metrics: ore output, own copper cathode equivalent production, net cash cost of copper and maintenance spend per tonne of own copper cathode equivalent production.

The financial element will be determined on the basis of a rounded assessment of performance against budget for the following metrics: Group EBITDA, EPS and Free Cash Flow.

The strategic development element will be determined on the basis of a rounded assessment of objectives mainly relating to the execution of new projects, particularly those at Bozshakol and Aktogay, and the realignment of the business. However, specific metrics relating to the strategic developments element will not be disclosed in advance as they are considered to be commercially sensitive at this time.

The Committee will assess performance against the 2014 elements utilising a scoring system of 0-4 where 0 represents 0% bonus and rising in equal increments so that a maximum bonus is payable for a score of 4. Details of the assessment for 2014 will be disclosed in next year's Annual Report on Remuneration along with details of the payments resulting. However, details relating to strategic developments, will not be disclosed until it is felt that such disclosures cease to be 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 will be 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.

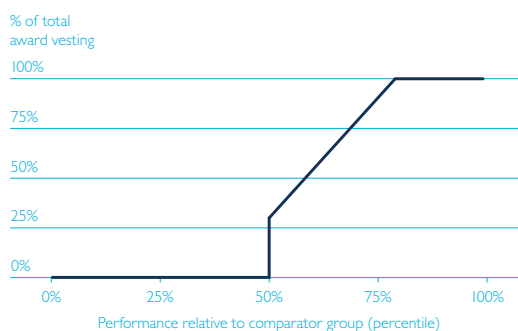
Long-term incentives

LTIP award levels will remain unchanged for 2014. It is the Committee's intention to grant an award of performance shares with a face value of 200% of salary to Oleg Novachuk and Eduard Ogay during 2014. The value of the award will be based on a five day average share price commencing immediately after the announcement of the Group's preliminary results. The Committee will continue to review the award level to ensure it remains appropriate.

The awards will continue to be granted as nil-cost options. The number of shares that vest will continue to be 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 to be granted in 2014 the performance period for the sub-awards will be:

- sub-award 1: 1 January 2014 to 31 December 2016; and
- sub-award 2: 1 June 2014 to 31 May 2017.

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 will be 41 months.

The averaging period for calculating TSR will be 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 outcome. 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).

The comparator group applicable for awards to be granted in 2014 will comprise:

Anglo American plc	Antofagasta plc
BHP Billiton plc	Boliden AB
First Quantum Minerals Ltd	Freeport-McMoran Copper & Gold Inc
Fresnillo plc	Glencore Xstrata plc
Hochschild Mining plc	KGHM Polska Miedz S.A.
Lundin Mining Corporation	Rio Tinto plc
Southern Copper Corporation	Teck Resources Ltd 'B'
Vedanta Resources plc	

Other than the replacement of Inmet Mining Corporation (which delisted in April 2013) and Eurasian Natural Resources Corporation PLC (which delisted in November 2013) by KGHM Polska Miedz S.A. and the replacement of Xstrata plc and Glencore International plc (which merged in May 2013) with Glencore Xstrata plc, it is intended that the comparator group for 2014 will be consistent with the 2013 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 at least 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.

Sharesave

The maximum participation level in the UK and International Sharesave Plans is as per HMRC limits (maximum monthly savings towards share purchases is limited to £250 (or local currency equivalent) per calendar month) with participants granted linked share options (by reference to projected savings) with a strike price up to a 20% discount to the prevailing share price at the time of grant. On the maturity of the savings contracts, participants can elect to (i) use the accumulated savings to exercise the option or (ii) request the return of their savings.

Share Incentive Plan

The maximum participation level in the UK and International Share Incentive Plans is as per HMRC limits and provides for a combination of the following:

- free shares – the Company can give each participant free shares worth up to £3,000 (or local currency equivalent) each;
- partnership shares – participants can use up to £1,500 (or local currency equivalent) per year out of pre-tax and pre-NICs pay to buy partnership shares;
- matching shares – employers can give matching shares at a ratio of up to two matching shares for each partnership share bought by the employee; and
- dividend shares – participants can use up to £1,500 (or local currency equivalent) of dividends from plan shares each year to buy further shares in the company through the plan.

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

Chairman and other non-executive Directors' remuneration

The fees paid to the non-executive Directors for chairing and being members of committees and of the Senior Independent Director were reviewed in August 2013 and decreased, with the changes taking effect from 1 September 2013. These changes resulted in the total fees payable to non-executive Directors being reduced by around 4% per annum. The Board has been taking measures to improve the market capitalisation of the Company. Non-executive Director fees will be further reviewed during 2014 in relation to progress towards that objective. The fee structure from 1 January 2014 is shown on page 80.

The Board appointed Simon Heale as non-executive Chairman with effect from the conclusion of the Annual General Meeting on 17 May 2013. His fee at that time was set at £300,000 per annum, which he has proposed to reduce to £275,000 per annum from 1 April 2014.

In addition to his base fee, Vladimir Kim receives a salary of £780,000 per annum and is entitled to a discretionary annual cash bonus of up to 120% of salary as executive chairman of Kazakhmys Corporation LLC.

For the Chairman and each non-executive Director who served during 2013, the effective date of their letter of appointment is shown in the table below:

Name	Letter of appointment
Philip Aiken AM ¹	1 November 2006
Lynda Armstrong OBE	21 October 2013
Clinton Dines	1 October 2009
Simon Heale ²	27 February 2013
Vladimir Kim ³	17 May 2013
Michael Lynch-Bell	27 February 2013
Lord Renwick of Clifton, KCMG	1 December 2005
Charles Watson	24 August 2011
Daulet Yergozhin ⁴	19 November 2008

¹ Stood down as a Director on 31 August 2013.

² Prior to his appointment as Deputy Chairman and Chairman designate, Simon Heale had a letter of appointment dated 21 November 2006 in respect of his appointment as a non-executive Director on 1 January 2007, which terminated upon him becoming Chairman of the Company.

³ Prior to his appointment as a non-executive Director, Vladimir Kim had a service agreement dated 26 September 2005 in respect of his appointment as an executive Director on 1 October 2005, which terminated upon him becoming a non-executive Director.

⁴ Stood down as a Director on 5 December 2013.

Directors' remuneration for 2013

Executive Directors' remuneration

	Oleg Novachuk		Eduard Ogay		Vladimir Kim ³	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Salary	856	856	619 ²	532	404	1,062
Benefits	3	37	–	–	60	105
Sub-total – fixed remuneration	859	893	619 ²	532	464	1,167
Annual performance bonus¹	599	685	244	255	170	509
Long Term Incentive Plan	–	–	–	–	–	–
Sub-total – variable remuneration	599	685	244	255	170	509
Total	1,458	1,578	863	787	634	1,676

¹ Bonus figures relate to bonus amounts paid in 2013 and 2014 in respect of the prior year performance period.

² Eduard Ogay's salary is set in dollars and paid in tenge. In 2013, the basis of currency conversion was changed from a fixed rate to a floating rate at market levels. Whilst his dollar denominated salary has remained unchanged at \$968,000 per annum, the amount paid to him has increased by 17% to KZT148 million (equivalent to £619,000).

³ Stood down as Executive Chairman on 17 May 2013. In addition to his remuneration as Executive Chairman, Vladimir Kim was paid a fee of £52,000 as a non-executive Director plus a salary of £486,500 and an annual bonus of £204,000 as executive chairman of Kazakhmys Corporation LLC.

Executive Directors' annual bonus awards (performance period 1 January 2013 to 31 December 2013)

For 2013, the annual bonus plan comprised four discrete elements, with each element representing an equal proportion of the maximum bonus potential:

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

The Committee assessed each discrete element of the annual bonus plan separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements and formed a rounded assessment of the performance of executive Directors at the end of the year.

Awards were also subject to a safety override enabling them to be scaled back to reflect the Group's safety performance.

Performance assessment for 2013

Despite the challenging market conditions the executive management team were able to deliver satisfactory operational performance, with output of all metals being in line with guidance given to the market at the beginning of 2013. Although measures were taken in the second half of the year to reduce costs, financial performance was impacted by lower commodity prices and cost pressures, with performance generally being below budget. Total shareholder return was disappointing, reflecting in the most part the fall in the metal prices over the period and higher operating costs.

Strong progress was made in re-shaping the portfolio and disposals were successfully made of MKM and the Group's stakes in Ekibastuz GRES-I and ENRC PLC. The major project development at Bozshakol remains on track for first production in 2015. However, an additional contractor has been appointed at Bozshakol, which has led to an increase in the overall budget cost of the project of around \$350 million.

The overall level of performance achieved resulted in annual bonus awards of 44% of maximum potential.

However, the Committee considered that safety performance over 2013 was not satisfactory and requires further improvement. In light of this, the Committee scaled back resulting bonuses by 20%. As a result the overall annual bonus awards to the executive Directors and Vladimir Kim were 35% of maximum bonus potential at 70%, 42% and 42% of salary for Oleg Novachuk, Eduard Ogay and Vladimir Kim, respectively. The Committee is satisfied that this level of bonus is appropriate given the performance achieved across this scorecard and the safety assessment.



Executive Directors' Long Term Incentive Plan awards**(performance period 9 April 2010 to 8 April 2013 and 1 January 2011 to 31 December 2013)**

Awards granted to selected senior managers, excluding executive Directors, under the LTIP on 9 April 2010 were subject to a relative TSR performance condition with TSR measured against a bespoke group of global mining companies over the three-year period from date of grant.

The following vesting schedule applied to the awards:

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%

At the end of the performance period Kazakhmys was ranked 19 out of the 22 comparator companies. This award thus lapsed in full having failed to meet the required threshold median ranking.

In 2011, the basis of measurement was changed so that awards granted in April 2011 were split into two sub-awards, the first with performance measured over the three-year period from 1 January 2011 and the second over the three-year period from 1 June 2011. Therefore, half of the awards made in April 2011 were due to vest based on performance ending in 2013. The same vesting schedule as set out above was applicable to these awards, with TSR measured relative to a bespoke group of global mining companies.

For the sub-award measured over the period 1 January 2011 to 31 December 2013, Kazakhmys was ranked below median ranking. This sub-award has thus lapsed in full having failed to reach the threshold median positioning. The sub-award measured over the period 1 June 2011 to 31 May 2014 is also expected not to reach the threshold median positioning and is also expected to lapse in full.

LTIP awards granted in the year

During 2013, awards were made to each of Oleg Novachuk and Eduard Ogay at 200% of salary. The awards were made on 5 April 2013 on the following basis:

Executive Director	Type of Award	Basis of award granted	Share price at date of grant	Number of shares awarded	Face value of award £000	% of face value which vests at threshold
Oleg Novachuk	Nil-cost option	200% of salary	375p	455,998	1,710	30
Eduard Ogay	Nil-cost option	200% of salary	375p	280,379	1,051	30

The awards were made subject to a TSR performance condition which requires the Company to deliver a median ranking (30% vests) rising on a straight-line basis to an upper quartile TSR ranking (100% vests) relative to a peer group of mining companies (see page 84 for details of the peer group). The awards were split into two sub-awards measured over two separate performance periods, i.e. 1 January 2013 to 31 December 2015 and 1 June 2013 to 31 May 2016. The averaging period for calculating TSR will be three months leading up to the start and the end of the performance period of each sub-award.

Executive Directors' interests in the Long Term Incentive Plan

Executive Director	Date of award	Date of vesting	Number of shares conditionally awarded as at 1 January 2013	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 2013 ¹
Oleg Novachuk	6 April 2011	1 June 2014	117,006 ²	1,468p	–	–	–	117,006
	4 April 2012	1 June 2015	188,359	887p	–	–	–	188,359
	5 April 2013	1 June 2016	–	375p	455,998	–	–	455,998
Eduard Ogay	6 April 2011	1 June 2014	73,623 ²	1,468p	–	–	–	73,623
	4 April 2012	1 June 2015	110,841	887p	–	–	–	110,841
	5 April 2013	1 June 2016	–	375p	280,379	–	–	280,379

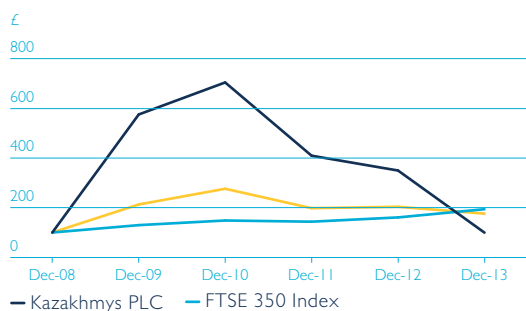
¹ The table shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends on unvested shares.

² Half of the award lapsed on 1 January 2014 on failing to achieve the required TSR target.

Performance graph

The graph below shows the value, at 31 December 2013, of £100 invested in Kazakhmys PLC shares on 31 December 2008 compared with an equivalent investment in the FTSE 350 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



Source: Thomson Reuters

Remuneration of highest paid executive Director

The table below shows the total remuneration figure for the highest paid executive Director (i.e. the Executive Chairman for 2009 to 2012 and the Chief Executive for 2013) during each of those financial years. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus and LTIP percentages show the payout for each year as a percentage of the maximum.

	2009 ¹	2010 ¹	2011 ¹	2012 ¹	2013 ²
Total remuneration (£000)	1,801	1,736	1,768	1,676	1,458
Annual bonus (%)	71	58	50	40	35
LTIP vesting (%)	–	–	–	–	–

¹ Relates to the remuneration of Vladimir Kim, Executive Chairman at that time.

² Relates to the remuneration of Oleg Novachuk, Chief Executive.

Remuneration of other senior managers

The base salaries for the year ended 31 December 2013 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	1
£500,000 – £599,999	–
£400,000 – £499,999	2

¹ Includes base salary of Andrew Southam, Chief Financial Officer.

	Annual base salary £000	Annual bonus £000	Total 2013 £000
Chief Financial Officer's remuneration	410	264	674

¹ Andrew Southam became Chief Financial Officer on 17 May 2013.

Percentage change in remuneration levels

The table opposite shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average UK employee. The Committee has chosen this comparator as it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill,

which is distorted by movements in the number of employees and variations in wage practices in Kazakhstan. For the benefits and bonus per employee, this is based on those employees eligible to participate in such schemes.

Change in remuneration levels	2013	2012	% change
Chief Executive (£'000)			
Salary	856	856	Nil
Benefits	3	37	(92)
Bonus ¹	685	715	(4)
Average per employee (£)			
Salary	90,054	77,764	16 ²
Benefits	1,372	813	69
Bonus ¹	17,106	23,180	(26)

¹ Bonus figures relate to bonus amounts paid in 2012 and 2013 in respect of the prior year performance period.

² Increase reflects the inclusion of the salary of Matthew Hird from May 2013 up to the date of his leaving the Company in September 2013.

Relative importance of spend on pay

The table below shows the movement in the total cost of remuneration in the Group, the total cost of remuneration for Directors as well as dividend distributions to shareholders and capital expenditure.

Spend on pay	2013 £ million	2012 £ million	% change
Overall expenditure on Group employees' pay	481	449	7
Overall expenditure on pay for executive Directors	3	4	(25)
Distribution by way of dividends	27	77	(64)
Capital expenditure	802	774	4

Capital expenditure is shown in the table above as Directors have a choice of whether to distribute profits and cash flows by way of dividend, or reinvest these in the asset base to maintain or improve the Group's operations.

Non-executive Directors' fees

Fees paid to non-executive Directors during the year ended 31 December 2013 are set out below:

	Total fees 2013 £000	Total fees 2012 £000
Non-executive Directors' fees and expenses		
Philip Aiken AM ¹	79	126
Lynda Armstrong OBE ²	19	–
Clinton Dines ³	132	127
Simon Heale	242	108
Vladimir Kim ⁴	52	–
Michael Lynch-Bell	87	–
Lord Renwick of Clifton, KCMG	95	96
Charles Watson	119	108
Daulet Yergozhin ⁵	78	84

¹ Stood down as a Director on 31 August 2013.

² Appointed a Director on 21 October 2013.

³ Includes £29,000 (2012: £22,000) in flight and accommodation expenses for travel to the UK to attend Board and committee meetings.

⁴ Stood down as Executive Chairman and became a non-executive Director on 17 May 2013. In addition to his fee as a non-executive Director, Vladimir Kim was paid a salary of £486,500 and an annual bonus of £204,000 as executive chairman of Kazakhmys Corporation LLC. Prior to his appointment as a non-executive Director and executive chairman of Kazakhmys Corporation LLC, he was paid £403,900 as Executive Chairman of the Company and received benefits of £60,185 and a bonus of £170,000.

⁵ Stood down as a Director on 5 December 2013. As a minister of the Government of Kazakhstan, Daulet Yergozhin was 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 2013 in the Company's ordinary shares as at that date and 1 January 2013 are shown in the table below:

Directors' interests in ordinary shares	Ordinary shares beneficially owned at 1 January 2013	Ordinary shares beneficially owned at 31 December 2013	Outstanding LTIP awards	% of shareholding guideline as at 31 December 2013
Lynda Armstrong OBE	–	4,000	–	–
Clinton Dines	3,000	3,000	–	–
Simon Heale	5,000	28,000	–	–
Vladimir Kim	149,306,795	149,306,795	–	–
Michael Lynch-Bell	–	7,000	–	–
Oleg Novachuk	34,923,423	34,923,423	761,363	100
Eduard Ogay	3,834,427	3,834,427	464,843	100
Lord Renwick of Clifton, KCMG	4,000	4,000	–	–
Charles Watson	3,624	3,624	–	–

1 The ordinary shares beneficially owned by Oleg Novachuk and Eduard Ogay have been pledged to support loans. The voting rights in respect of the pledged ordinary shares have been retained by them.

2 No changes in Directors' interests occurred in the period 1 January 2014 to 26 February 2014.

3 The closing market price of the Company's shares at 31 December 2013 was 219p and the range for the year was 191p to 826p.

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 2013, 648,215 shares were held by the Employee Benefit Trust to hedge outstanding awards of 2,689,676. This means that the trust holds 24% of outstanding awards.

Statement of shareholder voting

At the AGM on 17 May 2013, the advisory vote on the Directors' Remuneration Report received the following votes from shareholders:

Votes for	408,767,173	98.85%
Votes against	4,768,287	1.15%
Total votes cast	413,535,460	100%
Votes withheld	1,056,283	

Shareholder engagement

During the year, the Remuneration Committee wrote to a number of institutional shareholders and shareholder bodies to seek their views on the remuneration policy to be submitted to shareholders on 8 May 2014 to provide them with an opportunity to see the policy at an early stage and provide feedback. The dialogue was constructive and shareholders were broadly supportive of the Committee's approach on these matters.

When reviewing the remuneration framework of executive Directors and certain senior managers, the Committee takes into account the views and guidance expressed by institutional shareholders and shareholder bodies.

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, LTIP awards granted in the year, Executive Directors' interest in the Long Term Incentive Plan, Remuneration of other senior managers, Non-executive Directors' fees and expenses, and Directors' interests in ordinary shares.

On behalf of the Board

Lord Renwick of Clifton, KCMG

Chairman, Remuneration Committee

26 February 2014

Directors

The Directors of the Company who served during the year were as shown on pages 24 and 25, together with Philip Aiken AM and Daulet Yergozhin who retired from the Board on 31 August 2013 and 5 December 2013, respectively. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 88.

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. Lynda Armstrong OBE, having been appointed by the Board on 21 October 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.

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.

Annual General Meeting

The Company's Annual General Meeting will be held at 12.15pm on Thursday 8 May 2014 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 Annual General 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 2013, the Company's issued share capital was 458,379,033 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 446,677,203 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 29 commencing on page 138.

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

A list of main subsidiary undertakings and their principal activity, is given in note 40 on page 160.

Major shareholdings

As at 26 February 2014, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Conduct 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 26 February 2014
Cuprum Holding Limited ¹	135,944,325	30.43
Harper Finance Limited ²	29,706,901	6.65
Credit Suisse Group AG	23,814,025	5.33

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 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.

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 36 commencing on page 144.

Legal proceedings

Neither the Company nor any of its subsidiaries is a defendant in any proceedings which the Directors believe will have a material affect on either the Company's financial position or profitability. Commitments and contingencies are disclosed in note 37 commencing on page 150.

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.

The terms of a \$100 million revolving credit facility dated 8 March 2013 between Kazakhmys Finance PLC and Bank of China Limited, 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

The Audit Committee has reviewed the independence, objectivity and performance of the auditors, KPMG.

KPMG Audit Plc has informed the Company that it wishes to formally change the entity which conducts the Company's audit from KPMG Audit Plc to KPMG LLP. Therefore, KPMG Audit Plc will not stand for re-appointment at the Company's forthcoming Annual General Meeting and instead KPMG LLP will seek appointment as the Company's auditors at this meeting. The Audit Committee has recommended, and the Board has approved, resolutions to be proposed at the forthcoming Annual General Meeting to appoint KPMG LLP as the Company's 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;
- the Strategic Report, Directors' Report and Governance Report include 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; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Strategic Report comprising pages 2 to 27, the Directors' Report comprising pages 30 to 57 and 89 to 91, and the Governance Report comprising pages 60 to 88, and including the sections of the Annual Report and Accounts referred to in these pages, have been approved by the Board and signed on its behalf by:

Robert Welch

Company Secretary

26 February 2014

Registered Office
6th Floor, Cardinal Place
100 Victoria Street
London
SW1E 5JL

Registered in England and Wales No. 05180783



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Independent auditor's report to the members of Kazakhmys PLC only

Opinions and conclusions arising from our audit

1 Our opinion on financial statements is unmodified

We have audited the financial statements of Kazakhmys PLC for the year ended 31 December 2013 set out on pages 98 to 160. 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 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs 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.

2 Our assessment of risks of material misstatement

In arriving at our opinions above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, and the key procedures to address them, were as set out below. Those procedures were designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

Impairment of assets

Refer to page 112 (note 4 – Significant accounting judgements and key sources of estimation uncertainty – Impairment of assets), pages 124 and 125 (note 8 – Impairment losses) and page 70 (Audit Committee report)

- **The risk** The Group has recorded significant impairments during the year. Despite this, at 31 December 2013 the Group's net asset value exceeded its market capitalisation by \$2.3 billion, which might imply that there are additional impairments that have not been recognised.

- **Our response** In light of this, we assessed the potential for impairment of all cash generating units within the Group irrespective of whether indicators of potential impairment had been identified. Our audit procedures included, among others, testing the control designed and applied by the Group to ensure that its impairment analysis is appropriately undertaken and reviewed. We evaluated the identification of cash generating units by the Group against the requirements of accounting standards, taking into account any business changes during the year. We considered the estimates of fair value less costs to sell which the Group derived, as is common in the industry, on a discounted cash flow basis. We challenged the appropriateness of key assumptions underlying the discounted cash flows (including commodity prices, production costs, inflation, foreign exchange, production volume, discount rates, life of assets and ore reserves, committed capital expenditure for development projects) based on historical production information, together with market and other externally available information. We used our valuation specialists to assess the discount rate used. We tested the mathematical accuracy of the discounted cash flow models. We evaluated the sensitivity of the outcomes by considering downside scenarios against reasonably plausible changes to the key assumptions. Finally, we rationalised the difference between market capitalisation and the net asset value, having regard to analyst valuations, which are typically also based on net present values, and market commentary and we evaluated the appropriateness of the relevant disclosure.

- **Our findings** We found that the Group had assessed and recorded impairments based on a balanced set of assumptions. We found that the difference between the market capitalisation and the Group's net assets could be largely explained by market valuations generally attributing a negative value to the Group's existing copper business in Kazakhstan. In particular, the carrying value of the relevant assets in the Zhezkazgan Region which has been written down to nil (the lowest it can be under accounting standards even though the discounted cash flow results in a significant negative outcome). We found that the disclosure appropriately describes the inherent degree of judgement involved and the potential impact on future periods of amendments to the key assumptions.

Disclosure relating to going concern

Refer to page 103 (note 2 – Basis of preparation –

(a) Going concern) and page 71 (Audit Committee report)

- **The risk** The Group's cash flow projections over the near-term are characterised by capital expenditure on its major development projects exceeding operating cash inflows. The Group is therefore dependent on its existing cash resources and available borrowing facilities to fund this expenditure until the first of these projects, Bozshakol, delivers positive cash flow. The financial statements explain how the Directors have formed a judgement that the going concern basis is appropriate in preparing the financial statements of the Group. The Directors have concluded that the range of possible outcomes they have considered in arriving at this judgement is not sufficient to give rise to a material uncertainty regarding the Group's ability to continue as a going concern. As this assessment involves consideration of future events, there is a risk that the judgement is inappropriate and the uncertainty should have been assessed as material, in which case additional disclosures would have been required.

- **Our response** Our audit procedures included, among others, challenging the appropriateness of key assumptions in the cash flow projections (including commodity prices, production costs, inflation, foreign exchange, production volume, committed capital expenditure and the availability of borrowing facilities) based on historical production information, together with market and other externally available information. We also assessed the projected timing of the receipt of the \$1.25 billion proceeds of the sale of its interest in Ekibastuz GRES-1. We tested the mathematical accuracy of the projections. We evaluated the sensitivity of the projected available cash by considering downside scenarios against reasonably plausible changes to the key assumptions. We evaluated the potential impact of the mitigating actions management believe are available to them in the event that available cash is lower than projected considering, amongst others, the actions undertaken by management during the last global economic downturn. We considered the appropriateness of the relevant disclosure.
- **Our findings** We found both the use of the going concern basis of accounting and the conclusion that there is not a material uncertainty about the Group's ability to continue as a going concern to be supported by the evidence available. We found the disclosure on the use of the going concern basis of accounting in note 2 to the financial statements to be appropriate and that it included a balanced description of the circumstances which could possibly lead to a need for additional financing in the medium term.

Bribery and corruption

Refer to pages 69 and 70 (Audit Committee report)

- **The risk** The Group's business involves mining activities in Kazakhstan and Kyrgyzstan. Transparency International's Corruption Perceptions Index 2013 indicates that corruption risks are significant in both countries. In addition, companies in the mining sector are inherently at higher risk from corruption due to the significant level of government regulation and their procurement profile. This could result in material losses to the Group and material improper payments not being appropriately disclosed.
- **Our response** Our audit procedures included, among others, considering the Group's policies and procedures to prevent the risk of corruption. We evaluated the tone set by the Board and by senior management. We evaluated the Group's policies, procedures and controls over the selection of suppliers and the process over acknowledging acceptance of services/equipment provided by suppliers. We tested samples of payments made to suppliers and considered any transactions which we considered unusual in the context of the Group's operations. We reviewed dealings with government agencies with a view to identifying indicators of corruption. Where we found individual transactions that appeared to be outside the normal course of business, having enquired about these transactions from senior operational management and executive management, we sought to corroborate explanations given by investigating the nature of the transactions and evaluating the business rationale for the transactions taking account of our experience in the mining and other industries in Kazakhstan. We discussed our findings with senior operational management, the Audit Committee and the Board and enquired as to whether they had knowledge of any improper payments. We involved KPMG's forensic accounting specialists to assist in the design of our procedures and we remained alert to indications of the existence of bribery and corruption throughout our performance of other audit procedures.
- **Our findings** We did not identify any instances of improper payments from our audit procedures, including from enquiries of senior operational management and executive management and where we found individual transactions that appeared unusual we were satisfied that upon analysis these were not indicative of bribery or corruption. On this basis, no improper payments that require disclosure have come to our attention.

Disability benefits

Refer to page 113 (note 4 – Significant accounting judgements and key sources of estimation uncertainty – employee benefits) and pages 140 and 141 (note 31 – Employee benefits) and page 71 (Audit Committee report)

- **The risk** The Group has a number of employees and former employees who have suffered workplace injuries and are eligible to receive disability payments from the Group compensating the employees for their inability to work, the disability they have suffered and to pay for certain medical expenses. The disability payments can be for a predefined term or for life, depending on severity and are often linked to the rate of salary increases in the business. The provision is established on an actuarial basis with key assumptions being interpretation of the relevant legislation in Kazakhstan, discount rate, mortality rates and future salary inflation. Small changes to the assumptions and estimates used to value the future disability payment obligation can have a significant impact on the financial position and results of the Group.
- **Our response** Our audit procedures included, among others, testing the controls designed and applied by the Group to provide itself with assurance that the assumptions are updated and monitored regularly and that the final assumptions used in the calculation have been approved. We evaluated the process undertaken by the Group to compile the employee data used for the valuation by testing samples to assess the accuracy and completeness of this data. We challenged the key assumptions used in the calculation of the future disability payment obligation, with input from our own actuarial specialists, including by comparing key assumptions such as the discount, inflation and mortality rates against externally derived data. We assessed the competency and objectivity of the actuarial specialists engaged by the Group to assist in valuing the future disability payment obligation. We considered the appropriateness of the related disclosure in note 31 to the financial statements.
- **Our findings** We found the Group's judgements as to the assumptions and resulting estimates and the related disclosure in notes 4 and 31 to be balanced and the calculations to have been performed by suitably qualified actuarial specialists.

Tax contingencies (including Excess Profit Tax)

Refer to page 113 (note 4 – Significant accounting judgements and key sources of estimation uncertainty – Income taxes), pages 150 and 151 (note 37 – Commitments and contingencies – (b) Kazakhstan taxation contingencies), pages 129 to 131 (note 15 – Income taxes) and page 71 (Audit Committee report)

- **The risk** Tax legislation in Kazakhstan continues to evolve and can be open to different interpretations. Changes to the Kazakhstan tax legislations and new interpretations of existing legislation could impact the Group's financial position and results. Consequently, provisions for tax contingencies require the Group to make judgements and estimates in relation to tax risks the outcomes of which can be less predictable than in many other jurisdictions.
- **Our response** Our audit procedures included, among others, seeking to understand the current status of the tax claims and reviewing recent correspondence with the tax authorities to challenge the Group's view on the quantification, classification and disclosure of tax claims. We challenged the judgements inherent in the classification of tax claims made by the Group and the basis of accounting for provisions or refunds based on our knowledge of the Kazakhstan tax legislation. We involved our tax specialists in Kazakhstan and the UK to assist the Group audit team in making this assessment. We considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.
- **Our findings** We found the Group's judgements as to the amounts recognised as provisions at 31 December 2013 to be acceptable though somewhat cautious. We found that the disclosures in notes 4, 15 and 37 provide a balanced description of the current status of tax claims and risks.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at \$31 million. This has been determined with reference to a benchmark of revenue which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group and to be a more stable benchmark year on year compared to a profit benchmark. The materiality of \$31 million represents 1% of the chosen benchmark.

We agreed with the Audit Committee to report to it the following misstatements that we identified through our audit: (i) all material corrected misstatements over \$31 million, (ii) uncorrected misstatements with a value in excess of \$2 million for income statement items (or \$4 million for balance sheet reclassifications) and (iii) other misstatements below those thresholds that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were carried out at six reporting components located in Kazakhstan and Kyrgyzstan (of which one represents an individually significant reporting component) and eight reporting components in the United Kingdom (of which one represents an individually significant reporting component). Audits for Group reporting purposes covered 98% of revenue from continuing operations; 97% of loss before taxation; and 99% of total assets.

The audits of components located in the United Kingdom were performed by the Group audit team. Detailed audit instructions were sent to the KPMG member firms carrying out the audits of the reporting components in Kazakhstan and Kyrgyzstan. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the Kazakhstan and Kyrgyzstan component teams on six separate occasions during the year for oversight of the planning and performance of the audits in Kazakhstan and Kyrgyzstan, and to attend meetings with key management personnel in Kazakhstan.

The audits undertaken at the reporting components of the Group were very largely performed to local materiality levels as the majority of components also prepare local statutory accounts. The audits undertaken for Group reporting purposes at the key reporting components were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from \$1.5 million to \$25 million.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the 2013 Annual Report and Accounts that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the 2013 Annual Report and Accounts and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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 90, in relation to going concern; and
- the part of the Corporate Governance Report on pages 60 to 75 relating to the Parent Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 91, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Jimmy Daboo (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

26 February 2014

\$ million (unless otherwise stated)	Notes	2013	2012
Continuing operations			
Revenues	5(b)	3,099	3,353
Cost of sales	7(a)	(2,110)	(2,023)
Gross profit		989	1,330
Selling and distribution expenses	7(b)	(73)	(64)
Administrative expenses	7(c)	(819)	(805)
Net other operating expenses	7(d)	(10)	(17)
Impairment losses	8	(689)	(202)
(Loss)/profit before finance items and taxation		(602)	242
Analysed as:			
Profit before finance items and taxation (excluding special items)		166	442
Special items	6	(768)	(200)
Finance income	14	45	64
Finance costs	14	(124)	(155)
(Loss)/profit before taxation		(681)	151
Income tax expense	15(a)	(127)	(86)
(Loss)/profit for the year from continuing operations		(808)	65
Discontinued operations			
Loss for the year from discontinued operations	10(d)	(1,224)	(2,335)
Loss for the year		(2,032)	(2,270)
Attributable to:			
Equity holders of the Company		(2,030)	(2,271)
Non-controlling interests		(2)	1
		(2,032)	(2,270)
Earnings per share attributable to equity holders of the Company – basic and diluted			
From continuing operations (\$)	16(a)	(1.57)	0.12
From discontinued operations (\$)	16(a)	(2.39)	(4.45)
		(3.96)	(4.33)
EPS based on Underlying Profit – basic and diluted			
From continuing operations (\$)	16(b)	0.04	0.36
From discontinued operations (\$)	16(b)	0.33	0.58
		0.37	0.94

Consolidated statement of comprehensive income
Year ended 31 December 2013

\$ million	Notes	2013	2012
Loss for the year		(2,032)	(2,270)
Other comprehensive income/(expense) for the year after tax:			
Items that will never be reclassified to the income statement:			
Actuarial losses on employee benefits, net of tax	31	(22)	–
		(22)	–
Items that are or may be reclassified subsequently to the income statement:			
Exchange differences on retranslation of foreign operations		(60)	(50)
Recycling of exchange differences on disposal of subsidiary	9(a)	2	–
Recycling of capital reserves on disposal of associate	9(b)	511	–
Share of other comprehensive losses of joint venture	21	(12)	(9)
Share of other comprehensive losses of associate	22	(75)	(33)
		366	(92)
Other comprehensive income/(expense) for the year		344	(92)
Total comprehensive expense for the year		(1,688)	(2,362)
Attributable to:			
Equity holders of the Company		(1,686)	(2,363)
Non-controlling interests		(2)	1
		(1,688)	(2,362)

\$ million	Notes	2013	2012
Assets			
Non-current assets			
Intangible assets	18	52	64
Property, plant and equipment	19	2,754	2,448
Mining assets	20	558	614
Investment in joint venture	21	–	927
Investment in associate	22	–	2,027
Other non-current assets	23	647	532
Deferred tax asset	15(b)	21	87
		4,032	6,699
Current assets			
Inventories	24	610	750
Prepayments and other current assets	25	325	380
Income taxes receivable		59	30
Trade and other receivables	26	235	122
Investments	27	625	515
Cash and cash equivalents	28	1,715	1,246
		3,569	3,043
Assets classified as held for sale		1,018	251
		4,587	3,294
		8,619	9,993
Total assets			
Equity and liabilities			
Equity			
Share capital	29(a)	171	200
Share premium		2,650	2,650
Capital reserves	29(c)	(541)	(932)
Retained earnings		1,937	4,341
		4,217	6,259
Attributable to equity holders of the Company			
Non-controlling interests		4	6
		4,221	6,265
Total equity			
Non-current liabilities			
Borrowings	30	2,608	2,439
Deferred tax liability	15(b)	14	1
Employee benefits	31	477	330
Provisions	32	98	100
		3,197	2,870
Current liabilities			
Trade and other payables	33	631	622
Borrowings	30	503	29
Income taxes payable		9	1
Employee benefits	31	53	43
Provisions	32	5	5
		1,201	700
Liabilities directly associated with assets classified as held for sale		–	158
		1,201	858
		4,398	3,728
		8,619	9,993
Total liabilities			
Total equity and liabilities			

These financial statements were approved by the Board of Directors on 26 February 2014.

Signed on behalf of the Board of Directors

Oleg Novachuk
Chief Executive Officer

Andrew Southam
Chief Financial Officer

Consolidated statement of cash flows
Year ended 31 December 2013

\$ million	Notes	2013	2012
Cash flows from operating activities			
Cash flow from operations before interest, income taxes and dividends from associate and joint venture	34	504	832
Interest paid		(156)	(85)
Income taxes paid		(67)	(142)
Dividends from associate and joint venture		–	87
Net cash flows from operating activities		281	692
Cash flows from investing activities			
Interest received		12	15
Proceeds from disposal of property, plant and equipment and mining assets		38	51
Purchase of intangible assets		(18)	(13)
Purchase of property, plant and equipment		(1,120)	(1,019)
Investments in mining assets		(147)	(209)
Licence payments for subsoil contracts		(6)	(5)
Acquisition of non-current investments		(3)	(15)
Acquisition of non-controlling interest in subsidiary	29(a)	–	(2)
Movement in short-term bank deposits	35	(110)	282
Proceeds from disposal of associate	9(b)	875	–
Disposal of subsidiary, net of cash disposed		27	3
Net cash flows used in investing activities		(452)	(912)
Cash flows from financing activities			
Purchase of own shares under the Group's share buy-back programme		–	(88)
Proceeds from borrowings – net of arrangement fees paid of \$22 million (2012: \$18 million)		790	1,183
Repayment of borrowings		(107)	(614)
Dividends paid by the Company	17(a)	(42)	(121)
Net cash flows from financing activities		641	360
Net increase in cash and cash equivalents			
	35	470	140
Cash and cash equivalents at the beginning of the year		1,250	1,111
Effect of exchange rate changes on cash and cash equivalents	35	(5)	(1)
Cash and cash equivalents at the end of the year	28	1,715	1,250

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 2013

\$ million	Notes	Attributable to equity holders of the Company				Total	Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserves ¹	Retained earnings			
At 1 January 2012		200	2,650	(840)	6,815	8,825	7	8,832
(Loss)/profit 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	21	–	–	(9)	–	(9)	–	(9)
Net share of losses of associate recognised in other comprehensive income	22	–	–	(33)	–	(33)	–	(33)
Total comprehensive (expense)/income for the year		–	–	(92)	(2,271)	(2,363)	1	(2,362)
Acquisition of non-controlling interest in subsidiary	29(a)	–	–	–	–	–	(2)	(2)
Share-based payment	39	–	–	–	6	6	–	6
Own shares acquired under the Group's share buy-back programme	29(b)	–	–	–	(88)	(88)	–	(88)
Dividends paid by the Company	17(a)	–	–	–	(121)	(121)	–	(121)
At 31 December 2012		200	2,650	(932)	4,341	6,259	6	6,265
Loss for the year		–	–	–	(2,030)	(2,030)	(2)	(2,032)
Exchange differences on retranslation of foreign operations		–	–	(60)	–	(60)	–	(60)
Recycling of exchange differences on disposal of subsidiary	9(a)	–	–	2	–	2	–	2
Recycling of capital reserves on disposal of associate	9(b)	–	–	511	–	511	–	511
Share of losses of joint venture recognised in other comprehensive income	21	–	–	(12)	–	(12)	–	(12)
Net share of losses of associate recognised in other comprehensive income	22	–	–	(75)	–	(75)	–	(75)
Actuarial losses on employee benefits, net of \$5 million tax	31	–	–	–	(22)	(22)	–	(22)
Total comprehensive expense for the year		–	–	366	(2,052)	(1,686)	(2)	(1,688)
Share-based payment	39	–	–	–	5	5	–	5
Purchase of Company's share capital on disposal of associate	29(a),(c)	(29)	–	25	(315)	(319)	–	(319)
Dividends paid by the Company	17(a)	–	–	–	(42)	(42)	–	(42)
At 31 December 2013		171	2,650	(541)	1,937	4,217	4	4,221

¹ Refer to note 29(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 office 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 through three divisions within the natural resources sector, the principal activities of which during 2013 were:

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

MKM for the years ended 31 December 2013 and 2012 is included as a discontinued operation within the consolidated financial statements (see note 10(d)). MKM was sold on 28 May 2013 (see note 9(a)).

The legal names of the constituent companies within the above divisions are shown in note 40(n) on page 160.

2. Basis of preparation

The financial statements set out on pages 98 to 160 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 30 to 37. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial Review on pages 38 to 47. In addition, note 36 commencing on page 144 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 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. The Group adopts a prudent approach in managing its liquidity risk, reflecting the volatility in commodity prices.

In 2013, the Group completed the disposal of its investment in ENRC for \$875 million and agreed the sale of its 50% investment in the Ekibastuz GRES-I power station for \$1.25 billion. The proceeds from the sale of Ekibastuz GRES-I are expected in the first half of 2014, and will significantly strengthen the balance sheet as the Group proceeds with the development of the two major growth projects.

At 31 December 2013, the Group's net debt was \$771 million with total undrawn committed facilities of \$1.54 billion. The net sales proceeds from the Ekibastuz GRES-I disposal of \$1.25 billion will significantly enhance the Group's liquidity position and provide greater financial security until the first of the Group's major growth projects comes on stream.

During 2013, the Group had fully drawn its \$2.7 billion loan facilities for the funding of the Group's major development project at Bozshakol, the gold/copper project at Bozymchak and other mid-sized projects. The first principal repayments commenced in 2013 with \$107 million repaid to date. The maturity profile of the Group's outstanding debt is long dated with the total drawn balance of \$2.6 billion repayable in maturities extending out for 12 years. In January 2014, \$400 million of this facility relating to two mid-sized projects was repaid early as development of these projects is not expected to commence in the near term.

In 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. Of this facility \$57 million was drawn down at 31 December 2013. 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 the first draw down. At 31 December 2013, \$1.44 billion remained undrawn under the facility.

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. The facility was reduced to \$500 million on 31 December 2013, being the amount drawn at the end of the availability period. 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 a \$100 million revolving credit facility available for standby liquidity and general corporate purposes. This facility has remained undrawn since inception. Therefore, the Group has future funding and additional liquidity of \$1.54 billion available in the short to medium term, with \$1.44 billion of this amount available only for the development of the Aktogay copper project.

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. The Board is mindful of the Group's exposure to a single commodity and to the successful delivery of the Group's major growth projects in the medium term. A severe downturn in the copper price or material adverse developments on the growth projects would impact future funding 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 2013 and the Group's financial performance for the year ended 31 December 2013.

2. Basis of preparation continued

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.

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 40(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

In preparing the consolidated financial statements, the Group has applied the following standard on its effective date:

- IAS 19 'Employee Benefits (Revised)'. The Group has adopted IAS 19 (revised) with effect from 1 January 2013; the standard requires the immediate recognition of actuarial gains and losses in other comprehensive income and eliminates the corridor approach. This has not had a material impact on the financial position or performance of the Group. Consequently, no adjustment has been made to the comparative financial information as at 31 December 2012;
- 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 did not have a material impact on the financial position or performance of the Group; and

- 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 adoption of the interpretation did not have a material impact on the financial position or performance of the Group.

The Group has not early adopted any standards, interpretations or amendments that were issued but are not yet effective.

The new standards and interpretations issued by the IASB that are relevant to the Group for first time application for the year ended 31 December 2013 were endorsed by the EU for application later than 1 January 2013 (refer to note 2(f)). Consequently, the Group has not adopted any of these standards and interpretations for the year ended 31 December 2013.

(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 adoption of these standards and interpretations is dependent on the date they become effective for application in the EU:

- IFRS 9 'Financial Instruments', IASB effective date and EU endorsement date has yet to be determined. 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 currently assessing the impact of IFRS 10 on its financial position and 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 currently assessing the impact of IFRS 11 on its financial position and 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 currently assessing the impact of IFRS 12 on its financial position and performance; and

- Improvements to IFRSs. There are a number of amendments to certain standards following the 2012 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.

(g) Change in accounting policies

The Group adopted IAS 19 (revised) from 1 January 2013, see note 2(e), changing the Group's accounting policy on employee benefits. All other accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed for the year ended 31 December 2012.

(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.

Following the Group's irrevocable undertaking to accept the proposed offer for the sale of the Group's shareholding in ENRC, the ENRC investment has been reclassified as a discontinued operation at 24 June 2013. The share of profits from ENRC for the period 1 January 2013 to 24 June 2013 is reported within discontinued operations in the consolidated income statement.

In addition, following the Group's acceptance of an offer for the sale of the Group's 50% joint venture in Ekibastuz GRES-I and the Group's investment in Kazhydrotechenoergo LLP ('Kaz Hydro') on 5 December 2013, these investments have been reclassified as an asset held for sale with Ekibastuz GRES-I as a discontinued operation at that date.

The share of profits from Ekibastuz GRES-I for the period 1 January 2013 to 5 December 2013 is reported within discontinued operations in the consolidated income statement. The consolidated income statement for the prior year has been restated to conform to this presentation for both ENRC and Ekibastuz GRES-I.

3. Summary of significant accounting policies

As a result of an amendment to IAS 1, items are grouped in other comprehensive income based on whether or not they are subsequently reclassified to the income statement. Comparative information has been aligned with current year presentation.

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 2013		31 December 2012	
	Spot	Average	Spot	Average
Kazakhstan tenge	153.61	152.13	150.74	149.11
Kyrgyz som	49.25	48.44	47.40	47.01
Euro	0.75	0.73	0.76	0.78
UK pounds sterling	0.61	0.64	0.62	0.63

(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.

3. Summary of significant accounting policies continued

(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 its 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 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 ('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;
- 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.

(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 or 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.

3. Summary of significant accounting policies continued

(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 co-ordinated 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 (Revised)', 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 arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise for defined benefit plans not considered to be other long-term employee benefits. In respect of other long-term employee benefit plans, namely the Group's disability benefits obligation, all actuarial gains and losses are recognised in the income statement in the period in which they arise. The expense in relation to all 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.

(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 2(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

3. Summary of significant accounting policies continued

- 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 investments, 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 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 36.

4. 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.

(a) 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.

Determination of excess profits taxation ('EPT')

In 2011, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC in relation to past disputes over the interpretation of the EPT legislation. As part of this ruling, the Supreme Court also found that Kazakhmys LLC should not have been an EPT payer in the periods up to and including 2008. Kazakhmys LLC subsequently submitted a claim for \$108 million to the Ministry of Finance. By 31 December 2012, \$60 million had been reimbursed by set-off against the 2012 tax year income tax and mineral extraction tax liabilities and was recognised in the consolidated financial statements as a special item. The remaining \$48 million of the \$108 million claim was challenged by the Ministry of Finance, who believes that this amount relates to periods beyond the Kazakhstan statute of limitations, and was not reimbursed. As a result, 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 believed that there was sufficient uncertainty over the recoverability of this amount such that an asset was not recognised in the consolidated financial statements as at 31 December 2012.

In 2013, the Ministry of Finance continued its legal action over the remaining \$48 million of the \$108 million claim, with their appeal reaching the Supreme Court. In October 2013, the Supreme Court ruled in favour of Kazakhmys LLC confirming Kazakhmys LLC's right to receive the remaining \$48 million of the past EPT payments. Due to the ongoing uncertainty following a legal appeal by the tax authorities against the Supreme Court's decision no credit has been recognised for the year ended 31 December 2013.

Assets held for sale and discontinued operations

On 5 December 2013, the Kazakhmys Board of Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-1 and the Group's investment in Kaz Hydro for \$1,249 million, after transaction costs of \$2 million and the additional \$49 million, being the cost of acquiring the remaining shares held in Kaz Hydro. After considering the status of the sales process, the Directors believe that it is highly probable a sale will be complete within 12 months. As a result, the Group's investments in Ekibastuz GRES-1 and Kaz Hydro have been classified as assets held for sale at 31 December 2013, with Ekibastuz GRES-1 being classified as a discontinued operation in the consolidated income statement for the period ended 5 December 2013 and for the year ended 31 December 2012.

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 was treated as an associate and accounted for under the equity method in accordance with IAS 28 'Investments in Associates' as the Directors believed that the Group exerted 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 did not have representation on the board of ENRC, the Directors believed that the Group had the ability to exercise significant influence by virtue of its substantial shareholding, whereby the Group owned in excess of 25% of the issued share capital of ENRC and was the single largest shareholder.

This interest conferred upon the Group certain additional rights and influence under the Companies Act 2006 (CA06) which allowed the Group to block special resolutions proposed by ENRC at general meetings. Consequentially, through the provisions of the CA06, the Group was able to participate in policy making processes of ENRC, including participation in rights issues or setting the distribution policy, which formed part of ENRC's capital management strategy.

The Directors were of the view that the Group had influence over the acquisition strategy of ENRC by having the ability to block related party transactions which ENRC had a history of making, where these transactions are over and above the de-minimis exemption in the Listing Rules.

4. Significant accounting judgements and key sources of estimation uncertainty continued

Furthermore, the frequency and nature of meetings between the two companies changed substantially since the Group increased its shareholding above 25%.

The Directors therefore believed that it was appropriate for the Group to equity account for its interest in ENRC in accordance with IAS 28 up to 24 June 2013, the date on which it was reclassified as an asset held for sale and ceased to be equity accounted.

(b) 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 of commodity prices, market demand and supply, the development of operating costs, economic and regulatory climates, capital expenditure requirements, long-term mine plans and other factors.

Any subsequent changes to cash flows due to changes in the above mentioned factors could impact the carrying value of the assets.

The Group's asset review has considered the results of the optimisation programme to date, and the potential for future savings, when assessing the future economic outlook for assets. The prospects for the Zhezkazgan Region, a cash generating unit, are considered challenging. The recoverable amount of the Zhezkazgan Region cash generating unit is believed by management to be significantly lower than its carrying value such that an impairment charge of \$575 million has been recognised (see note 8).

The calculation of the fair value less costs to sell of the Group's cash-generating units for the impairment review at 31 December 2013 provided 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. Any changes to the assumptions adopted in the calculation of the fair value less costs to sell, individually or in aggregate, would result in a different valuation being determined.

The Directors note that following the impairments recognised in 2013, the deficit between the Group's net asset value and its market capitalisation remains significant. This deficit is largely due to the fact that under accounting standards, the carrying value of the assets cannot be negative, whilst the valuation of the same assets on a discounted cash flow basis may well be. In particular, whilst the Zhezkazgan Region CGU has been written down to nil, the forecast discounted cash flows result in a significant negative amount which cannot be recognised at 31 December 2013. The Directors have considered this and other circumstances that

contribute to the difference between the Group's net asset value and market capitalisation and believe that despite this difference there are no further impairments necessary in respect of the Group's other cash generating units.

ENRC Investment

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, subsequent to those impairment reviews, the price expectations and outlook for ENRC's key products weakened, ENRC announced a revised capital expenditure programme and in addition, ENRC's gearing levels increased significantly. As a result, after taking those developments into account, the impairment review performed in accordance with IAS 36 'Impairment of assets', resulted in an impairment charge of \$2,223 million being 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 publically 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 was 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 have resulted in a different value-in-use being determined. Accordingly, in determining the valuation point within the range of outcomes determined by the calculation of the value-in-use, the Directors also considered ENRC's market valuation over several historical periods and the results of recent valuations performed by equity analysts.

The investment was sold for an amount significantly lower than the carrying amount at 31 December 2012 during 2013 in connection with an offer for ENRC. The circumstances surrounding this transaction led the Directors to conclude that the prospects of the full fundamental value of ENRC being realised in the ENRC share price were remote in the short to medium term and the risks of a further erosion of value considerable. This resulted in an offer price which the Directors considered did not properly reflect the full fundamental value of the Group's investment in ENRC. The Directors have considered whether this loss is indicative of the impairment recognised at 31 December 2012 being understated and have concluded that the impairment at that date was appropriate.

Bozymchak

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.

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 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 asset's useful economic life is reviewed at least annually and any changes could affect prospective depreciation rates and asset carrying values.

Zhezkazgan Region

As discussed in note 4(b), following the Group's asset review which has considered the results of the optimisation programme to date, the Zhezkazgan Region, a cash generating unit within Kazakhmys Mining, has been fully impaired during the year. As a result, management do not believe that ore reserves of the Region

continue to meet the definition of JORC compliant reserves, i.e. the section of a mineral resource that is economically mineable and can be the basis of a technically and economically viable project under reasonable financial assumptions. Consequently, the Zhezkazgan Region's ore reserves have been excluded from the Group's ore reserves at 31 December 2013.

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')

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 believed that the likelihood of further liabilities or exposures existing in respect of EPC for the periods 2006 to 2008 was 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 was 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.

5. 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 businesses 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 to all these separate functions and entities is included within the Mining segment.

Kazakhmys Power

Kazakhmys Power operates in Kazakhstan and consists of the Group's three captive power stations and the Ekibastuz GRES-I coal-fired power station joint venture. 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-I 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. On 5 December 2013 the Group's Board of Directors accepted an offer to sell the 50% interest in Ekibastuz GRES-I and the Group's investment in Kaz Hydro. The offer was approved by Kazakhmys shareholders on 7 January 2014 with completion dependent on certain conditions precedent. As a result, Ekibastuz GRES-I and Kaz Hydro have been classified as assets held for sale with Ekibastuz GRES-I classified as a discontinued operation at 5 December 2013. The share of profits from Ekibastuz GRES-I for the period ended 5 December 2013 is now recognised within discontinued operations in the consolidated income statement. The consolidated income statement for the comparative period has been restated to conform to this presentation.

MKM

MKM operates in Germany, where it manufactures copper and copper alloy semi-finished products. The business was sold on 28 May 2013. At 31 December 2012, MKM was classified as an asset held for sale and as a discontinued operation. MKM faced different risks to the Group's other businesses, and produced different products. It was therefore shown as a separate operating segment.

Managing and measuring operating segments

The key performance measure of the operating segments is EBITDA (excluding special items), which 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 (see note 6).

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 11.

(a) Operating segments
(i) Income statement information

\$ million	Year ended 31 December 2013							
	Kazakhmys Mining	MKM	Kazakhmys Power ¹	Corporate Services	Total	Income statement	Discontinued operations ²	
							Joint venture ^{1,2}	Other ²
Revenues								
Segment sales	3,058	595	472	–	4,125			
Inter-segment sales	(55)	–	(128)	–	(183)			
Sales to external customers	3,003	595	344	–	3,942	3,099	248	595
Gross profit	938	28	182	–	1,148	989	131	28
Operating costs	(855)	(29)	(31)	(30)	(945)	(902)	(14)	(29)
Impairment losses ³	(622)	(23)	(66)	(3)	(714)	(689)	(2)	(23)
Loss on disposal of subsidiary and associate ⁴	–	(1)	–	(528)	(529)	–	–	(529)
Segmental (loss)/profit before finance items and taxation	(539)	(25)	85	(561)	(1,040)	(602)	115	(553)
Share of losses from associate ²					(758)	–	–	(758)
Share of profits from joint venture ²					–	–	(89)	89
Net finance costs					(83)	(79)	(3)	(1)
Income tax expense					(151)	(127)	(23)	(1)
Loss for the year					(2,032)	(808)	–	(1,224)

\$ million	Year ended 31 December 2012							
	Kazakhmys Mining	MKM	Kazakhmys Power ¹	Corporate Services	Total	Income statement	Discontinued operations ²	
							Joint venture ^{1,2}	Other ²
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)
Loss on disposal of subsidiary ⁵	(8)	–	–	(13)	(21)	(8)	–	(13)
Segmental profit/(loss) before finance items and taxation	300	31	152	(68)	415	242	155	18
Share of losses from associate ²					(2,481)	–	–	(2,481)
Share of profits from joint venture ²					–	–	(126)	126
Net finance (costs)/income					(93)	(91)	3	(5)
Income tax (expense)/credit					(111)	(86)	(32)	7
(Loss)/profit for the year					(2,270)	65	–	(2,335)

¹ For segment reporting, the Group includes its 50% share of the income statement line items that relate to Ekibastuz GRES-I on a line-by-line basis, whereas in the Group's income statement, the financial results of Ekibastuz GRES-I are included within 'share of profits from joint venture' within discontinued operations. On 5 December 2013, Ekibastuz GRES-I was reclassified as a discontinued operation following the Board of Directors' acceptance of an offer from Samruk-Energo for the investment.

² For the year ended 31 December 2013 discontinued operations comprise the results of MKM for the period up to its disposal on 28 May 2013, the share of post-tax results from the Group's investment in Ekibastuz-GRES-I up to 5 December 2013 and the share of post-tax results from the Group's investment in ENRC up to 24 June 2013. For the year ended 31 December 2012 discontinued operations comprised MKM, the Group's investments in Ekibastuz GRES-I and ENRC as well as the impact of the completion adjustment relating to the disposal of Kazakhmys Petroleum (see footnote 5 below).

³ For the year ended 31 December 2013, following the reclassification of ENRC as a discontinued operation, the impairment charge of \$823 million recognised to write the investment down to fair value less costs to sell is included within discontinued operations. The \$22 million impairment charge to write down MKM to its fair value less costs to sell is also included within discontinued operations.

⁴ On 28 May 2013 the Group sold its German subsidiary, MKM (see note 9(a)). In addition, on 8 November 2013 the Group completed the sale of the Group's investment in ENRC recognising a loss on disposal of \$528 million (see note 9(b)).

⁵ In the year ended 31 December 2012 the Group disposed of a subsidiary 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 9(c)). The \$13 million loss on disposal within the Corporate Services segment represents the completion adjustment on the sale of Kazakhmys Petroleum.

5. Segment information continued

(ii) Earnings before interest, tax, non-cash component of the disability benefits obligation, depreciation and amortisation (EBITDA) excluding special items

\$ million	Year ended 31 December 2013							
	Kazakhmys Mining	MKM	Kazakhmys Power ¹	Corporate Services	Total	Income statement	Discontinued operations ²	
							Joint venture ^{1,2}	Other ²
(Loss)/profit before finance items and taxation ¹	(539)	(25)	59	(561)	(1,066)	(602)	89	(553)
Interest and taxation of joint venture ¹	–	–	26	–	26	–	26	–
Segmental (loss)/profit before finance items and taxation¹	(539)	(25)	85	(561)	(1,040)	(602)	115	(553)
Add: non-cash component of the disability benefits obligation ³	26	–	–	–	26	26	–	–
Add: depreciation, depletion and amortisation	261	–	64	1	326	288	38	–
Add: mineral extraction tax ⁴	242	–	–	–	242	242	–	–
Segmental EBITDA	(10)	(25)	149	(560)	(446)	(46)	153	(553)
Special items – note 6:								
Add: additional disability benefits obligation charge	84	–	–	–	84	84	–	–
Add: impairment charges	617	22	52	1	692	670	–	22
Add: loss on disposal of assets	14	1	–	528	543	14	–	529
Segmental EBITDA (excluding special items)	705	(2)	201	(31)	873	722	153	(2)
Share of EBITDA of associate ^{2,5}	–	–	–	276	276	–	–	276
Group EBITDA (excluding special items)	705	(2)	201	245	1,149	722	153	274

\$ million	Year ended 31 December 2012							
	Kazakhmys Mining	MKM	Kazakhmys Power ¹	Corporate Services	Total	Income statement	Discontinued operations ²	
							Joint venture ^{1,2}	Other ²
Profit/(loss) before finance items and taxation ¹	300	31	123	(68)	386	242	126	18
Interest and taxation of joint venture ¹	–	–	29	–	29	–	29	–
Segmental profit/(loss) before finance items and taxation¹	300	31	152	(68)	415	242	155	18
Add: non-cash component of the disability benefits obligation ³	149	–	–	–	149	149	–	–
Add: depreciation, depletion and amortisation	251	–	56	3	310	276	34	–
Add: mineral extraction tax ⁴	260	–	–	–	260	260	–	–
Segmental EBITDA	960	31	208	(65)	1,134	927	189	18
Special items – note 6:								
Add: impairment charges	192	17	–	–	209	192	–	17
Add: loss on disposal of assets	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 ^{2,5}	–	–	–	548	548	–	–	548
Group EBITDA (excluding special items)	1,160	48	208	496	1,912	1,127	189	596

¹ As the (loss)/profit for the year from discontinued operations 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 (loss)/profit before finance items and taxation from discontinued operations of the Group on a consistent pre-interest and tax basis.

² For the year ended 31 December 2013, discontinued operations comprise the results of MKM for the period up to 28 May 2013, the share of post-tax results from the Group's joint venture investment in Ekibastuz GRES-1 up to 5 December 2013 and the share of results from the Group's investment in ENRC up to 24 June 2013. For the year ended 31 December 2012, discontinued operations comprised MKM, the Group's investments in Ekibastuz GRES-1 and ENRC as well as the impact of the completion adjustment relating to the disposal of Kazakhmys Petroleum.

³ 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.

⁴ Mineral extraction tax has been excluded from the key financial indicator of EBITDA. The Directors believe that MET is a substitute for a tax on profits, hence its exclusion provides a more informed measure of the operational performance of the Group.

⁵ The share of EBITDA of the associate excludes MET and special items of the associate.

5. Segment information continued

(iii) Balance sheet information

\$ million	At 31 December 2013						
	Kazakhmys Mining	MKM ¹	Kazakhmys Power ¹	Corporate Services	Total	Continuing operations	Discontinued operations ¹
Assets							
Property, plant and equipment, mining assets and intangible assets ²	3,259	–	102	3	3,364	3,364	–
Intragroup investments	–	–	–	2,500	2,500	2,500	–
Non-current investments and other assets ³	587	–	1,060	18	1,665	647	1,018
Operating assets ⁴	1,092	–	49	257	1,398	1,398	–
Current investments	50	–	–	575	625	625	–
Cash and cash equivalents	154	–	7	1,554	1,715	1,715	–
Segment assets	5,142	–	1,218	4,907	11,267	10,249	1,018
Deferred tax asset					21	21	–
Income taxes receivable					59	59	–
Assets classified as held for sale ¹					–	1,018	(1,018)
Elimination					(2,728)	(2,728)	–
Total assets					8,619	8,619	–
Liabilities							
Employee benefits and provisions	622	–	11	–	633	633	–
Operating liabilities ⁵	748	–	32	79	859	859	–
Segment liabilities	1,370	–	43	79	1,492	1,492	–
Borrowings					3,111	3,111	–
Deferred tax liability					14	14	–
Income taxes payable					9	9	–
Elimination					(228)	(228)	–
Total liabilities					4,398	4,398	–

\$ million	At 31 December 2012						
	Kazakhmys Mining	MKM ¹	Kazakhmys Power ¹	Corporate Services	Total	Continuing operations	Discontinued operations ¹
Assets							
Property, plant and equipment, mining assets and intangible assets ²	2,968	23	143	15	3,149	3,126	23
Intragroup investments	–	–	–	4,290	4,290	4,290	–
Non-current investments and other assets ³	518	–	941	2,027	3,486	3,486	–
Operating assets ⁴	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 receivable					30	30	–
Assets classified as held for sale ¹					–	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 ⁵	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 ¹					–	158	(158)
Elimination					(196)	(196)	–
Total liabilities					3,728	3,728	–

¹ At 5 December 2013, the Group's investment in Ekibastuz GRES-I and investment in Kaz Hydro within the Power segment, were classified as assets held for sale and included within discontinued operations. MKM was sold on 28 May 2013 (see note 9(a)). At 31 December 2012, MKM was classified as an asset held for sale and included within discontinued operations.

² Property, plant and equipment, mining assets 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; Kazakhmys Mining also includes \$146 million (2012: \$57 million) in Kyrgyzstan.

³ Non-current investments and other assets include other non-current investments, non-current VAT receivable and non-current advances paid in both years with the Group's investment in Ekibastuz GRES-I and Kaz Hydro, within the Kazakhmys Power segment and the Group's investment in ENRC within Corporate Services also being included at 31 December 2012.

⁴ Operating assets comprise inventories, prepayments and other current assets and trade and other receivables, including intragroup receivables.

⁵ Operating liabilities comprise trade and other payables, including intragroup payables.

5. Segment information continued

(iv) Net liquid funds/(debt)

\$ million	At 31 December 2013						
	Kazakhmys Mining	MKM ¹	Kazakhmys Power ²	Corporate Services	Total	Continuing operations	Discontinued operations ¹
Cash and cash equivalents	154	–	7	1,554	1,715	1,715	–
Current investments	50	–	–	575	625	625	–
Borrowings ³	(1,311)	–	(72)	(3,111)	(4,494)	(4,494)	–
Inter-segment borrowings ⁴	1,311	–	72	–	1,383	1,383	–
Net liquid funds/(debt)	204	–	7	(982)	(771)	(771)	–

\$ million	At 31 December 2012						
	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)

¹ MKM was sold on 28 May 2013 (see note 9(a)). At 31 December 2012, MKM was classified as an asset held for sale and included within discontinued operations.

² Kazakhmys Power represents the Group's captive power stations.

³ Borrowings of Corporate Services are presented net of capitalised arrangement fees of \$40 million (2012: \$32 million).

⁴ Borrowings of Corporate Services include amounts lent to the Kazakhmys Mining and Kazakhmys Power segments.

(v) Capital expenditure

\$ million	Year ended 31 December 2013						
	Kazakhmys Mining ¹	MKM ²	Kazakhmys Power ³	Corporate Services	Total	Continuing operations	Discontinued operations ²
Property, plant and equipment	1,166	9	67	–	1,242	1,233	9
Mining assets	166	–	–	–	166	166	–
Intangible assets	17	–	–	–	17	17	–
Capital expenditure	1,349	9	67	–	1,425	1,416	9

\$ million	Year ended 31 December 2012						
	Kazakhmys Mining ¹	MKM ²	Kazakhmys Power ³	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	1,246	11	47	2	1,306	1,295	11

¹ Capital expenditure within the Kazakhmys Mining segment includes capitalised depreciation of \$10 million (2012: \$7 million) and \$4 million (2012: \$5 million) and capitalised borrowing costs of \$111 million (2012: \$36 million) and \$15 million (2012: \$3 million) related to property, plant and equipment and mining assets respectively. During the year, the site restoration and clean up provisions within Kazakhmys Mining were reassessed and as a result, reduced by \$1 million (2012: \$9 million) and \$1 million (2012: \$5 million) 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 23).

² For the period up to MKM's disposal on 28 May 2013 and for the year ended 31 December 2012, MKM is included within discontinued operations.

³ Kazakhmys Power represents the Group's captive power stations. During the year, the site restoration and clean up provisions within Kazakhmys Power were reassessed and as a result, an additional \$2 million (2012: \$nil) has been recognised with a corresponding adjustment to property, plant and equipment.

(b) Segmental information in respect of revenues

Revenues by product are as follows:

\$ million	2013	2012
Kazakhmys Mining		
Copper cathodes	1,973	2,088
Copper rods	85	187
Copper in concentrate	210	–
Total copper products	2,268	2,275
Silver (including silver in concentrate)	311	414
Gold bullion	146	300
Gold doré	6	22
Zinc in concentrate	143	154
Other by-products	62	61
Other revenue	67	59
	3,003	3,285
MKM		
Wire	186	490
Sheets and strips	263	635
Tubes and bars	128	309
Metal trade	18	32
	595	1,466
Kazakhmys Power¹		
Electricity generation	328	348
Heating and other	16	10
	344	358
Total revenues	3,942	5,109
Continuing operations	3,099	3,353

¹ Kazakhmys Power revenues comprise the external revenues of the Group's captive power stations and 50% of the revenues of Ekibastuz GRES-I.

Revenues by destination to third parties are as follows:

\$ million	2013	2012
Continuing operations		
Europe	522	665
China	1,718	1,769
Kazakhstan	599	769
Other	260	150
	3,099	3,353
Discontinued operations – subsidiary		
Europe	446	1,153
China	10	24
Other	139	289
	595	1,466
Discontinued operations – share of joint venture's revenues		
Kazakhstan	214	279
Other	34	11
	248	290
Total revenues	3,942	5,109

Year ended 31 December 2013

Four customers within the Kazakhmys Mining segment, three of which are collectively under common control, represent 30% of total Group revenue from continuing operations for the year. The total revenue from these customers is \$933 million. The revenue from the three customers under common control of \$656 million represents 21% of the total Group revenue from continuing operations. Revenues from the fourth major customer of \$277 million represent 9% of total Group revenue from continuing operations.

Year ended 31 December 2012

Four customers within the Kazakhmys Mining segment, three of which are collectively under common control, represented 37% of total Group revenue from continuing operations for the year. The total revenue from these customers was \$1,245 million. The revenue from the three customers under common control of \$999 million represented 30% of the total Group revenue from continuing operations. Revenues from the fourth major customer of \$246 million represented 7% of total Group revenue from continuing operations.

6. 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	2013	2012
Continuing operations		
Special items within (loss)/profit before finance items and taxation:		
Additional disability benefits obligation related to previously insured employees	84	–
Impairment charges – note 8	670	192
Impairment charges against intangible assets	7	–
Impairment charges against property, plant and equipment	483	110
Impairment charges against mining assets	144	82
Provisions raised against inventories	4	–
Provisions raised against other assets	32	–
Loss on disposal of assets	14	8
Loss on disposal of property, plant and equipment	14	–
Loss on disposal of subsidiary	–	8
	768	200
Special items within (loss)/profit for the year:		
Taxation related special items	58	(73)
Recognition of a deferred tax asset on additional disability benefits obligation related to previously insured employees	(17)	–
Impairment of deferred tax assets recognised in the Zhezkazgan Region	98	–
Refund of past EPT payments	–	(60)
Recognition of a deferred tax asset resulting from impairment charges	(21)	(13)
Deferred tax assets on other special items	(2)	–
	826	127
Discontinued operations		
Special items within (loss)/profit before finance items and taxation:		
Impairment charges – note 8	22	17
Impairment charge against property, plant and equipment – MKM	22	3
Provisions against inventories – MKM	–	14
Loss on disposal of subsidiaries and investment in associate – note 9	529	13
	551	30
Special items within (loss)/profit before taxation:		
Impairment charge recognised on remeasurement of the ENRC investment	823	2,223
Associate ¹	30	385
Impairment charge recognised by associate	42	316
Onerous contract (utilised)/provided	(13)	85
Acquisition related transaction costs	1	7
Net gain arising from business combinations	–	(23)
	1,404	2,638
Special items within (loss)/profit for the year:		
Taxation effect of special items		
Release of deferred tax liabilities/(assets) resulting from the remeasurement of MKM	4	(2)
Recognition of deferred tax assets on impairment charges recognised by ENRC	(14)	–
	1,394	2,636

¹ At 24 June 2013, the Group's investment in its associate, ENRC, was reclassified to assets held for sale and discontinued operations (see note 22).

7. Cost of sales, selling and distribution expenses, administrative expenses and other operating income/(expense)

(a) Cost of sales

\$ million	2013	2012
Raw materials	513	509
Employee salaries and payroll taxes	501	474
Depreciation, depletion and amortisation	235	219
Production overheads	483	416
Mineral extraction tax	242	260
Other taxes	47	34
Utilities	22	34
Change in work in progress and finished goods	67	77
Continuing operations	2,110	2,023
Discontinued operations	567	1,359
	2,677	3,382

(b) Selling and distribution expenses

\$ million	2013	2012
Transportation expenses	27	30
Port charges	29	24
Employee salaries and payroll taxes	1	2
Raw materials	3	1
Other	13	7
Continuing operations	73	64
Discontinued operations	16	39
	89	103

(c) Administrative expenses

\$ million	2013	2012
Employee salaries and payroll taxes	250	236
Personal injury claims	182	207
Legal and professional	65	64
Transportation	57	58
Social responsibility costs	57	52
Levies and charges	36	9
Depreciation and amortisation	35	41
Utilities	29	23
Business travel	22	27
Medical and social support	24	22
Supplies	19	16
Communication	6	6
Bank fees	2	2
Other	35	42
Continuing operations	819	805
Discontinued operations	14	24
	833	829

(d) Other operating (expenses)/income

\$ million	2013	2012
Lease income	21	18
Depreciation of leased assets	(18)	(16)
Loss on disposal of subsidiary	-	(8)
Loss on disposal of property, plant and equipment	(14)	(2)
Other (net)	1	(9)
Net other operating expenses attributable to continuing operations	(10)	(17)
Net other operating income attributable to discontinued operations	1	5
	(9)	(12)

8. Impairment losses

\$ million	2013	2012
Impairment charges against intangible assets	7	–
Impairment charges against property, plant and equipment – note 8(b) and note 8(g) ¹	483	110
Impairment charges against mining assets – note 8(c) and note 8(g) ¹	144	82
Provisions raised/(released) against inventories – note 8(d)	11	(1)
Provisions raised against other assets – note 8(e)	32	7
Provisions raised against trade and other receivables – note 8(f)	12	4
Continuing operations	689	202
Discontinued operations – note 8(h) ¹	846	2,241
	1,535	2,443

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 6).

Year ended 31 December 2013

(a) Kazakhmys Mining – Zhezkazgan Region cash generating unit ('CGU') impairment review

In light of the decline in the price of commodities produced by the Group and inflationary pressures on operating costs, the Group commenced an optimisation programme and asset review which has resulted in operating cost and capital expenditure savings.

The asset review has considered the results of the optimisation programme to date, and the potential for future savings, when assessing the future economic outlook for assets. The prospects for the Zhezkazgan Region, a CGU within Kazakhmys Mining, are considered challenging. The recoverable amount of the Zhezkazgan Region CGU is believed by management to be significantly lower than its carrying value such that an impairment charge of \$575 million has been recognised, including \$98 million of deferred taxes written off. The impairment charge has reduced the carrying value of the Zhezkazgan CGU to nil.

The recoverable amount of the Zhezkazgan Region has been determined based on the 'fair value less costs to sell' calculations using the cash flows expected to be generated from existing operations and certain development projects, in particular Zhomart II. Cash flows are projected for periods up to the date that mining, refining and power generation is expected to cease based on management's current expectations. For current operations, the completion dates are based on recent assessments of the reserves and resources available and annual ore extraction rates.

The key assumptions used in the recoverable amount calculations are:

- Recoverable amount of reserves and resources – Economically recoverable reserves and resources are based on management's expectations and the technical studies and exploration and evaluation work undertaken by in-house and third party specialists.
- Commodity prices – Long-term commodity prices assumed fall within the range of external market analyst consensus.
- Operating costs – Variable operating costs have been included in the impairment test as a function of the related production volumes. Fixed costs at the mines, concentrators and smelters are largely constant but reflect material changes in activity levels.
- Discount rate – A discount rate of 16% was used in the recoverable amount calculations, which represents the pre-tax rate that reflects the Group's current market assessments of the time value of money and the risks specific to the cash generating unit.
- Timing of capital expenditure – Management have estimated the timing of capital expenditure on the development projects based on the Group's current and future financing plans and the results of technical studies completed to date.
- Inflation and exchange rates – These are based on a combination of externally sourced forecasts and rates determined from information available in the market after considering long-term market expectations.

The calculation of the fair value less costs to sell of the Group's CGUs for the impairment review at 31 December 2013 provided 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. Any changes to the assumptions adopted in the calculation of the fair value less costs to sell, individually or in aggregate, would result in a different valuation being determined.

(b) Kazakhmys Mining – impairment charges against property, plant and equipment

The impairment charges recognised against property, plant and equipment include \$325 million related to the impairment of the Zhezkazgan Region CGU, the impairment of certain production assets during the year, principally the Zhezkazgan smelter, Satpayev concentrator and associated assets of \$115 million and a number of mid-sized projects that were suspended during the year as a result of the Group's asset review of \$33 million. In addition, following the suspension of the Berezovsky concentrator in the East Region in the second half of the year, an impairment charge of \$8 million has been recognised.

(c) Kazakhmys Mining – impairment charges against mining assets

Following the Group's asset review discussed above, the Zhezkazgan Region CGU was impaired resulting in charges of \$139 million being recognised against mining assets. In addition, certain mid-sized projects within Kazakhmys Mining have been suspended leading to impairments of \$5 million being recognised against mining assets.

(d) Kazakhmys Mining – inventories

Included within the provisions against inventories is an impairment charge of \$4 million relating to specialised consumable inventories at the suspended Zhezkazgan smelter and \$7 million (2012: release of \$1 million) relating to general slow moving and obsolete inventory. Only impairment charges or reversals recognised against ore, specific consumables and finished goods inventories are treated as special items (see note 6).

(e) Kazakhmys Mining – other assets

The impairment of other assets mainly relates to the allocation of the impairment charge recognised in respect of the Zhezkazgan Region CGU, as discussed in note 8(a), in accordance with IAS 36 on a proportionate basis. This impairment charge is in addition to \$20 million of other asset impairments recognised at 30 June 2013.

(f) Kazakhmys Mining – trade and other receivables

Provisions against trade and other receivables include an amount of \$12 million (2012: \$4 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 2012

(g) Kazakhmys Mining – impairment charges against property, plant and equipment and mining assets

During 2012, the Bozymchak gold/copper development project, included in the Kazakhmys Mining Division, was subject to an impairment review due to difficulties experienced in operating in Kyrgyzstan. The impairment review 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 recognised an impairment charge of \$162 million against the mining assets and property, plant and equipment of the Bozymchak project. The impairment charge reduced 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. The charge of \$162 million was 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.

(h) Discontinued operations

Within discontinued operations impairment charges were recognised to write down the carrying values of MKM and ENRC to their fair value less costs to sell. MKM was impaired by \$22 million (2012: \$17 million) and ENRC by \$823 million (2012: \$2,223 million written down to value-in-use) (see note 22). Of the total impairment charges recognised at MKM in the years ended 31 December 2013 (for the period until 28 May 2013 when it was disposed of) and 31 December 2012 of \$23 million (2012: \$17 million), \$1 million in both years relates to the impairment of receivables which are not treated as special items.

9. Disposal of subsidiaries and investment in associate

Year ended 31 December 2013

(a) MKM

On 28 May 2013, the Group completed the disposal of MKM for a total consideration of €42 million (\$55 million) net of expected selling costs of €2 million (\$2 million). At the date of disposal MKM had net assets of €41 million (\$54 million). The total consideration of €42 million consists of €30 million (\$39 million) which was received in May 2013 and €12 million (\$16 million) which is deferred. The total consideration was concluded after the receipt of a dividend from MKM of €10 million (\$13 million) in April 2013. The deferred component of the consideration is in the form of a secured vendor loan note that bears interest at 9% per annum over four years, expiring in 2017, with early repayment permitted. The loss on disposal of \$1 million was mainly attributable to the recycling of the foreign currency translation reserve of \$2 million.

MKM was classified as an asset held for sale and a discontinued operation for the years ended 31 December 2013 (until its disposal in May 2013) and 31 December 2012.

(b) Investment in Associate – ENRC

On 24 June 2013 Eurasian Resources, acting on behalf of the ENRC Consortium comprising Mr Machkevitch, Mr Ibragimov, Mr Chodiev and the Government of Kazakhstan, announced a firm intention to make an offer for ENRC comprising \$2.65 in cash plus approximately 0.23 Kazakhmys PLC shares per ENRC share. The share component of the offer was fixed at Kazakhmys' share price on 21 June 2013, resulting in an offer of approximately \$1,206 million (\$1,194 million net of expenses). On 8 November 2013, the transaction completed and the Group received total proceeds of \$1,194 million, comprising \$875 million in cash and 77,041,147 Kazakhmys PLC shares valued at \$319 million. On completion the Group recognised a loss on disposal of its investment in ENRC of \$528 million, principally representing the recycling of the Group's share of ENRC's transactions recognised directly in equity of \$511 million.

9. Disposal of subsidiaries and investment in associate continued

The Kazakhmys PLC shares received by the Group were subsequently cancelled.

ENRC was classified as a discontinued operation for the years ended 31 December 2013 (until its disposal in November 2013) and 31 December 2012.

Year ended 31 December 2012

(c) Subsidiary company

In early 2012, the Group disposed of a subsidiary 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.

10. Discontinued operations and assets held for sale

(a) ENRC

As stated in note 9(b), the Group disposed of ENRC on 8 November 2013. It was classified as a discontinued operation for the years ended 31 December 2013 (until the date of its disposal) and 31 December 2012.

(b) MKM

As stated in note 9(a), the Group disposed of MKM on 28 May 2013. It was classified as a discontinued operation for the years ended 31 December 2013 (until the date of its disposal) and 31 December 2012.

(c) Ekibastuz GRES-I

On 5 December 2013, the Kazakhmys Board of Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-I and the Group's investment in Kaz Hydro for \$1,249 million, after transaction costs of \$2 million and an additional \$49 million being the cost of acquiring the remaining shares held in Kaz Hydro. The offer was approved by Kazakhmys shareholders on 7 January 2014 with completion dependent on certain conditions precedent. After considering the status of the sales process, the Directors believe that it is highly probable a sale will be complete within 12 months. As a result, the Group's investments in Ekibastuz GRES-I and Kaz Hydro have been classified as assets held for sale at 31 December 2013, with Ekibastuz GRES-I being classified as a discontinued operation in the consolidated income statement for the period ended 5 December 2013 and for the year ended 31 December 2012. The investment has been stated at its last equity accounted carrying value, which is lower than the expected net sales proceeds (see note 21).

(d) Financial performance of discontinued operations

The summary of results from discontinued operations as presented in the consolidated income statement is shown below:

\$ million	2013	2012
Results of discontinued operations:		
MKM	(27)	33
Ekibastuz GRES-I	89	126
ENRC	(1,286)	(2,481)
Kazakhmys Petroleum	–	(13)
Loss for the year from discontinued operations	(1,224)	(2,335)

The balance sheet as at 31 December 2012 and the results from MKM are set out in note 5(a).

The Group's share of ENRC's results is shown below:

\$ million	2013	2012
Share of associate's revenue and profit		
Revenue	834	1,643
Operating profit	126	(146)
Loss arising from acquisition of joint venture	(5)	23
Profit/(loss) before finance items, taxation and share of losses from joint ventures and associates	121	(123)
Net finance costs and share of loss of joint ventures and associates	(33)	(69)
Income tax expense and non-controlling interests	(23)	(66)
Share of profits/(losses)	65	(258)
Impairment loss recognised on the remeasurement to fair value less costs to sell/value-in-use	(823)	(2,223)
Loss on disposal	(528)	–
Results for the year	(1,286)	(2,481)

The Group's share of Ekibastuz GRES-I's results is shown below:

\$ million	2013	2012
Share of joint venture's revenue and profit		
Revenue	248	290
Operating profit	115	155
Net finance (expense)/income	(3)	3
Income tax expense	(23)	(32)
Profit for the year	89	126

Net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

\$ million	2013	2012
Operating activities	(27)	192
Investing activities	(21)	(51)
Financing activities	43	(82)
Net cash (outflow)/inflow	(5)	59

11. Employee information

\$ million	2013	2012
Wages and salaries	784	659
Social security costs	58	58
Employee benefits – note 31	177	192
Continuing operations	1,019	909
Discontinued operations	25	57
	1,044	966

Other non-monetary employee benefits (including sanatorium visits, medical services 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:

	2013	2012
Kazakhmys Mining	53,432	56,324
Kazakhmys Power ²	2,502	2,596
Corporate Services	362	384
Continuing operations	56,296	59,304
MKM ¹	1,095	1,095
	57,391	60,399

¹ The employees of MKM are included for the prior year and the period ended 28 May 2013 (see note 10(b)).

² Kazakhmys Power comprises the employees of the Group's captive power stations only. Ekibastuz GRES-I is treated as an equity accounted joint venture within discontinued operations so its employees are not included in the analysis above.

Analysed as:

	2013	2012
Central Asia ¹	56,236	59,242
UK	45	51
Netherlands	2	2
China	13	9
Continuing operations	56,296	59,304
Germany	1,095	1,095
	57,391	60,399

¹ Includes Kazakhstan and Kyrgyzstan.

12. 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 years ended 31 December 2013 and 2012 are deemed to be the Directors of the Company and the Chief Financial Officer, the Chief Operating Officer, Head of Projects, and the Director of Strategy.

Compensation for key management personnel (including Directors) comprises the following:

\$ million	2013	2012
Salaries	8.2	9.6
Annual bonuses	2.9	4.0
Share awards ¹	3.4	3.9
Benefits	0.5	0.9
	15.0	18.4

¹ Share awards are long term in nature which will be awarded after a three year vesting period.

The aggregate amount paid to Directors was £5.9 million (2012: £6.1 million). Details are included in the Directors' Remuneration Report and form part of these consolidated financial statements.

13. Auditor's remuneration

The auditor's remuneration for services provided to the Group during the year ended 31 December 2013 was \$2.8 million (2012: \$2.3 million), comprised as follows:

\$ million	2013	2012
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	1.1	1.2
- audit-related assurance services	0.3	0.3
- regulatory reporting services pursuant to legislation as reporting accountants	0.6	–
Total remuneration	2.8	2.3

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 was payable to MKM's statutory auditors, Ernst & Young GmbH in Germany. These amounts are not included in the table above.

14. Finance income and finance costs

\$ million	2013	2012
Finance income		
Interest income	12	17
Foreign exchange gains	33	47
Finance income attributable to continuing operations	45	64
Interest income	–	–
Foreign exchange gains	5	10
Finance income attributable to discontinued operations	5	10
	50	74
Finance costs		
Interest expense	(51)	(79)
Total interest expense	(177)	(118)
Less: amounts capitalised to the cost of qualifying assets ¹	126	39
Interest on employee obligations	(26)	(15)
Unwinding of discount on provisions	(8)	(8)
Finance costs before foreign exchange losses	(85)	(102)
Foreign exchange losses	(39)	(53)
Finance costs attributable to continuing operations	(124)	(155)
Interest expense	(2)	(5)
Foreign exchange losses	(4)	(10)
Finance costs attributable to discontinued operations	(6)	(15)
	(130)	(170)

¹ In 2013, the Group capitalised to the cost of qualifying assets \$126 million (2012: \$39 million) of borrowing costs incurred on the outstanding debt during the period on the CDB/Samruk-Kazyna and CDB financing facilities at an average rate of interest of 5.80% (2012: 5.54%).

15. Income taxes

(a) Income statement

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

\$ million	2013	2012
Current income tax		
Corporate income tax – current period (UK)	–	7
Corporate income tax – current period (overseas)	62	148
Corporate income tax – prior periods	(18)	23
Excess profits tax – prior periods	–	(60)
Deferred income tax		
Corporate income tax – current period temporary differences	76	(32)
Corporate income tax – prior period temporary differences	7	–
Income tax expense attributable to continuing operations	127	86
Current income tax attributable to discontinued operations	1	(7)
Deferred income tax attributable to discontinued operations	–	–
Income tax expense/(credit) attributable to discontinued operations	1	(7)
Total income tax expense	128	79

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	2013	2012
(Loss)/profit before tax from continuing operations	(681)	151
At UK statutory income tax rate of 23.25% (2012: 24.5%) ¹	(158)	37
(Over)/underprovided in prior periods – current income tax	(18)	23
Underprovided in prior periods – deferred income tax	7	–
Unrecognised tax losses	27	16
Impairment of deferred tax assets in respect of the Zhezkazgan Region	98	–
Effect of domestic tax rates applicable to individual Group entities	21	11
Non-deductible items:		
Transfer pricing	5	6
Impairment charge recognised against the Zhezkazgan Region	95	–
Other non-deductible expenses	50	53
Refund of past excess profits tax payments	–	(60)
Income tax expense attributable to continuing operations	127	86
Income tax attributable to discontinued operations	1	(7)
Total income tax expense	128	79

¹ For 2013, the UK statutory rate for January to March 2013 was 24.0% and for April to December 2013 was 23.0%, giving a weighted average full year rate of 23.25%. For 2012, the UK statutory income tax 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%.

Corporate income tax ('CIT') is calculated at 23.25% (2012: 24.5%) of the assessable profit for the year for the Company and its UK subsidiaries, 20.0% for the operating subsidiaries in Kazakhstan (2012: 20.0%) and 10.0% for the Group's Kyrgyzstan based subsidiary (2012: 10%). MKM, which was included as part of discontinued operations, had a tax rate of 28.5% (2012: 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 will have the effect of lowering the Group's overall future effective tax rate below the current UK statutory corporate tax rate. 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 2013:

Unrecognised tax losses

The Group has incurred tax losses during the year, primarily related to certain subsoil use contracts, which are not expected to generate sufficient taxable profits for these losses to be utilised in the foreseeable future. As a result, deferred tax assets of \$27 million (2012: \$16 million) in respect of these losses have not been recognised.

15. Income taxes continued

Impairment of deferred tax assets in respect of the Zhezkazgan Region

The \$98 million deferred tax asset in the Zhezkazgan Region primarily related to the employee benefits obligation. Following the impairment review performed on the Zhezkazgan Region, it is not expected that sufficient taxable income will be generated to utilise these assets. As a result, the deferred tax assets have been fully impaired.

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 \$2 million (2012: \$3 million) on the Group's effective tax rate. In addition, following confirmation from the tax authorities on the appropriateness of the Group's transfer pricing calculations on certain by-products, the previous provision of \$18 million has been reversed. This amount is shown as an overprovision in prior periods.

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 2013 (2012: \$3 million).

Other 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 of \$50 million (2012: \$53 million). In addition, the impairment charges recognised against the Zhezkazgan Region's assets are not deductible and have a \$95 million impact on the tax charge. The reversal of the provision for environmental pollution charges (see note 32(c)) and the related fines and penalties amounting to \$38 million in aggregate was non-taxable and offset non-deductible expenses for the year ended 31 December 2012.

The following additional factor impacted the Group's effective tax rate for the year ended 31 December 2012 only:

Excess profits taxation

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 refunded \$60 million which was set-off against the income tax and mineral extraction tax liabilities for the year ended 31 December 2012. The remaining \$48 million was challenged by the tax authorities who believe that this amount relates to periods beyond the Kazakhstan statute of limitations (see note 37(b)). The reimbursement of \$60 million in 2012 reduced the income tax and mineral tax payments for the year and lowered the Group's effective income tax rate.

(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 2013	Charged to income statement	Charged to equity	Net exchange translation	As at 31 December 2013
Intangible assets	(8)	1	–	–	(7)
Property, plant and equipment	(78)	11	–	1	(66)
Mining assets	10	4	–	–	14
Trade and other receivables	11	4	–	–	15
Provisions and employee benefits	82	(68)	5	(1)	18
Trade and other payables	60	(34)	–	(1)	25
Tax losses	6	(1)	–	–	5
Share-based payment schemes	3	–	–	–	3
Deferred tax asset, net	86	(83)	5	(1)	7
Analysed as:					
Deferred tax asset	87	(70)	5	(1)	21
Deferred tax liability	(1)	(13)	–	–	(14)

\$ million	As at 1 January 2012	Continuing operations	Disposal of subsidiary	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/(liability), net	55	32	(1)	86
Analysed as:				
Deferred tax asset	61	27	(1)	87
Deferred tax liability	(6)	5	–	(1)

(c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the consolidated financial statements are as follows:

\$ million	2013		2012	
	Temporary difference	Deferred tax asset	Temporary difference	Deferred tax asset
Continuing operations: Kazakhstan – tax losses				
Losses carried forward	214	43	87	17
Continuing operations: UK – tax losses				
Losses carried forward	68	14	31	7

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

(i) Kazakhstan

At 31 December 2013 and at 31 December 2012, Kazakhmys LLC had 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.

(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	2013	2012
Undistributed reserves of subsidiaries	5,675	6,477

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.

16. Earnings per share

(a) Basic and diluted EPS

Basic EPS is calculated by dividing the (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	2013	2012
Net (loss)/profit attributable to equity shareholders of the Company from continuing operations	(806)	64
Net loss attributable to equity shareholders of the Company from discontinued operations	(1,224)	(2,335)
	(2,030)	(2,271)
<hr/>		
Number	2013	2012
Weighted average number of ordinary shares of 20 pence each for EPS calculation	512,554,049	524,496,185
EPS – basic and diluted (\$)		
From continuing operations	(1.57)	0.12
From discontinued operations	(2.39)	(4.45)
	(3.96)	(4.33)

(b) EPS based on Underlying Profit

The Group's Underlying Profit is the net profit for the year excluding special items and their resultant tax and non-controlling interest effects, as shown in the table below. EPS based on Underlying Profit is calculated by dividing Underlying Profit by the weighted average 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 table shows the reconciliation from the reported profit to Underlying Profit and the share data used to determine the EPS based on Underlying Profit:

\$ million	2013	2012
Net (loss)/profit attributable to equity shareholders of the Company from continuing operations	(806)	64
Special items within (loss)/profit before finance items and taxation – note 6:	768	200
Special items within (loss)/profit for the year – note 6:	58	(73)
Underlying Profit from continuing operations	20	191
Net loss attributable to equity shareholders of the Company from discontinued operations	(1,224)	(2,335)
Special items within (loss)/profit before finance items and taxation – note 6:		
Subsidiary businesses	551	30
Special items within (loss)/profit before taxation – note 6:		
Impairment charge recognised against the investment in ENRC	823	2,223
Associate	30	385
Special items within loss for the year – note 6:		
Subsidiary businesses	4	(2)
Associate	(14)	–
Underlying Profit from discontinued operations	170	301
Total Underlying Profit	190	492
<hr/>		
Number	2013	2012
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	512,554,049	524,496,185
EPS based on Underlying Profit – basic and diluted (\$)		
From continuing operations	0.04	0.36
From discontinued operations	0.33	0.58
	0.37	0.94

17. Dividends paid

Dividends paid

The dividends paid during the year ended 31 December 2013 and 2012 are as follows:

	Per share US cents	Amount \$ million
Year ended 31 December 2013		
Final dividend in respect of year ended 31 December 2012	8.0	42
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

18. Intangible assets

\$ million	Licences	Other	Total
Cost			
At 1 January 2012	35	34	69
Additions	5	13	18
Disposals	–	(4)	(4)
At 31 December 2012	40	43	83
Additions	3	14	17
Disposals	(3)	(15)	(18)
Net exchange adjustment	(1)	(1)	(2)
At 31 December 2013	39	41	80
Amortisation			
At 1 January 2012	7	9	16
Amortisation charge	2	5	7
Disposals	–	(4)	(4)
At 31 December 2012	9	10	19
Amortisation charge	1	5	6
Impairment	3	14	17
Disposals	–	(14)	(14)
At 31 December 2013	13	15	28
Net book value			
At 31 December 2013	26	26	52
At 31 December 2012	31	33	64

19. Property, plant and equipment

\$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2012	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
Additions	18	68	100	834	1,020
Capitalised borrowing costs	–	–	–	111	111
Capitalised depreciation	–	–	–	10	10
Transfers	76	92	19	(187)	–
Disposals	(34)	(18)	(40)	(40)	(132)
Net exchange adjustment	(19)	(32)	(8)	(28)	(87)
At 31 December 2013	1,153	2,085	464	1,700	5,402
Depreciation and impairment					
At 1 January 2012	519	1,043	182	19	1,763
Depreciation charge	53	150	33	–	236
Disposals	(12)	(19)	(20)	–	(51)
Impairment – note 8(g)	16	3	(1)	92	110
Net exchange adjustment	(8)	(15)	(3)	–	(26)
At 31 December 2012	568	1,162	191	111	2,032
Depreciation charge	47	155	35	–	237
Disposals	(8)	(19)	(23)	(19)	(69)
Impairment – note 8(b)	127	203	63	90	483
Net exchange adjustment	(10)	(17)	(4)	(4)	(35)
At 31 December 2013	724	1,484	262	178	2,648
Net book value					
At 31 December 2013	429	601	202	1,522	2,754
At 31 December 2012	544	813	202	889	2,448

20. Mining assets

\$ million	Exploration cost	Mine development costs	Mine stripping costs	Construction in progress	Total
Cost					
At 1 January 2012	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
Additions	(26)	43	34	96	147
Capitalised borrowing costs	–	14	–	1	15
Capitalised depreciation	–	1	3	–	4
Transfers	–	71	–	(71)	–
Disposals	(2)	(8)	(24)	–	(34)
Net exchange adjustment	(7)	(11)	(1)	(3)	(22)
At 31 December 2013	238	600	76	131	1,045
Depletion and impairment					
At 1 January 2012	28	175	19	–	222
Depletion charge	–	25	20	–	45
Disposals	–	(6)	(19)	–	(25)
Impairment – note 8(g)	70	5	5	2	82
Net exchange adjustment	(1)	(2)	–	–	(3)
At 31 December 2012	97	197	25	2	321
Depletion charge	2	33	24	–	59
Disposals	(2)	(3)	(24)	–	(29)
Impairment – note 8(c)	24	88	18	14	144
Net exchange adjustment	(3)	(5)	–	–	(8)
At 31 December 2013	118	310	43	16	487
Net book value					
At 31 December 2013	120	290	33	115	558
At 31 December 2012	176	293	39	106	614

21. Investment in joint venture

\$ million	2013	2012
At 1 January	927	838
Share of profits from joint venture ^{1,2}	89	126
Net share of losses of joint venture recognised in other comprehensive income ²	(12)	(9)
Dividends received	–	(28)
Reclassified to assets held for sale – note 10(c)	(1,004)	–
At 31 December	–	927

¹ Share of profits from joint venture is net of tax.

² Based on the unaudited financial statements for the period ended 30 November 2013 and the year ended 31 December 2012 of Ekibastuz GRES-I.

The investment in joint venture relates to the Group's 50% shareholding in Ekibastuz GRES-I. On 5 December 2013, the Kazakhmys Board of Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-I and the Group's investment in Kaz Hydro for \$1,249 million. The sale was approved by the Group's shareholders on 7 January 2014 with completion, which is expected in the first half of 2014, dependent upon certain conditions precedent. After considering the status of the sales process, the Directors believe that it is highly probable a sale will be completed within 12 months. As a result, the Group's investments in Ekibastuz GRES-I and Kaz Hydro have been classified as assets held for sale at 31 December 2013, with Ekibastuz GRES-I being classified as a discontinued operation in the consolidated income statement for the period ended 5 December 2013 and for the year ended 31 December 2012.

22. Investment in associate

The Group held 334,824,860 shares in ENRC representing 26.0% of the issued share capital until 8 November 2013, the date on which the investment was sold.

\$ million	2013	2012
Investment in associate		
At 1 January	2,027	4,600
Share of profits/(losses) from associate ^{1,2}	65	(258)
Share of losses of associate recognised in other comprehensive income ²	(75)	(33)
Impairment charge against investment in associate	(823)	(2,223)
Dividends received	–	(59)
Disposal – note 9(b)	(1,194)	–
At 31 December	–	2,027

¹ Share of profits/(losses) from associate is net of tax.

² Based on ENRC's financial statements for the year ended 31 December 2012 and unaudited interim results for the period ended 30 June 2013.

On 24 June 2013, the Kazakhmys Board of Directors gave an irrevocable undertaking to accept the proposed offer from Eurasian Resources for the Group's entire shareholding in ENRC. At that date it was considered 'highly probable' that Kazakhmys' shareholders would approve the transaction such that the Group's investment in ENRC met the criteria to be classified as an asset held for sale. Kazakhmys shareholder approval was received on 2 August 2013. The investment was stated at the expected net sales proceeds of \$1,194 million, resulting in an impairment of \$823 million being recognised within discontinued operations in the consolidated income statement. The transaction completed on 8 November 2013 with the Group receiving \$875 million (net of \$12 million of estimated transaction costs) and 77,041,147 Kazakhmys PLC shares valued at \$319 million (£207 million). The Kazakhmys PLC shares received as part of the consideration were subsequently cancelled. The Group recognised a loss on disposal of the ENRC investment within discontinued operations (see note 9(b)), of \$528 million, principally representing the recycling of the Group's share of ENRC's transactions recognised directly in equity of \$511 million.

At 31 December 2012, following an impairment charge of \$2,223 million the carrying value of the Group's equity investment in ENRC was \$2,027 million. The impairment charge was recognised on the basis of an impairment review that was performed in accordance with IAS 36 'Impairment of assets', where the value of the Group's investment was determined on a value-in-use basis.

23. Other non-current assets

\$ million	2013	2012
Advances paid for property, plant and equipment	535	456
Non-current VAT receivable	113	69
Other non-current investments ¹	28	25
Gross value of other non-current assets	676	550
Provision for impairment	(29)	(18)
	647	532

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 (2012: \$9 million) and unlisted investments of \$19 million (2012: \$16 million), mainly related to a long-term receivable in respect of the sale of MKM. As at 31 December 2012 of the \$16 million, \$14 million related to the Group's investment in Kaz Hydro that was classified as an asset held for sale at 5 December 2013 (see note 21).

24. Inventories

\$ million	2013	2012
Raw materials and consumables	344	399
Work in progress	259	278
Finished goods	100	159
Gross value of inventories	703	836
Inventories provision	(93)	(86)
	610	750

The carrying amount of inventory that has been written down to net realisable value is \$93 million (2012: \$86 million).

25. Prepayments and other current assets

\$ million	2013	2012
Advances paid for goods and services	100	151
VAT receivable	207	185
Amounts due from related parties	13	13
Other	35	58
Gross value of prepayments and other current assets	355	407
Provision for impairment of prepayments and other current assets	(30)	(27)
	325	380

Provision for impairment as at 31 December 2013 includes a provision against the balances due from related parties (included within 'other companies' – see note 38), amounting to \$14 million (2012: \$5 million).

26. Trade and other receivables

\$ million	2013	2012
Trade receivables	284	175
Amounts due from related parties	41	58
Amounts due from third parties	243	117
Interest receivable	3	3
Gross value of trade and other receivables	287	178
Provision for impairment of receivables	(52)	(56)
	235	122

Included within trade receivables is an amount of \$1 million (2012: \$3 million) 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 2013 includes a provision on receivables due from related parties (included within 'companies under trust management' – see note 38), amounting to \$32 million (2012: \$51 million).

27. Current investments

\$ million	2013	2012
At 1 January	515	810
Additions	197	51
Disposals	(87)	(333)
Disposal of subsidiary – note 9(c)	–	(13)
At 31 December	625	515

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.

28. Cash and cash equivalents

\$ million	2013	2012
Cash deposits with initial maturities of less than three months	1,125	1,107
Cash at bank	590	139
Continuing operations¹	1,715	1,246
Discontinued operations	–	4
Cash and cash equivalents in the statement of cash flows	1,715	1,250

¹ Current investments and cash and cash equivalents include approximately \$1,120 million (2012: \$1,545 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 30) and approximately \$8 million of cash drawn down under the CDB Aktogay financing facility.

29. 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 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
Purchase of Company's issued share capital	(77,041,147)	(15)	(29)
At 31 December 2013	458,379,033	92	171

In November 2013, the Group completed the disposal of its investment in ENRC, receiving 77,041,147 Kazakhmys PLC shares as part of the total consideration. These shares were subsequently cancelled.

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 1 January 2012 to 99.90% at 31 December 2012.

(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. 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. During 2013, 115,579 shares (2012: 84,515) were transferred out of the Trust in settlement of share awards granted to employees that were exercised during the period.

At 31 December 2013, the Group, through the Employee Benefit Trust, owned 648,215 shares in the Company (2012: 763,794) with a market value of \$2 million and a cost of \$12 million (2012: \$10 million and \$14 million respectively). The shares held in treasury represented 0.14% (2012: 0.14%) of the issued share capital at 31 December 2013.

(ii) Own shares purchased under the Company's share buy-back programme

In 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 in 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 2012	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)
Exchange differences on retranslation of foreign operations ¹	–	–	(60)	–	–	(60)
Recycling of exchange differences on disposal of subsidiaries	–	–	2	–	–	2
Recycling of capital reserves on disposal of associate	–	–	509	–	2	511
Share of losses of joint venture recognised in other comprehensive income	–	–	(12)	–	–	(12)
Share of gains of associate recognised in other comprehensive income	–	–	(75)	–	–	(75)
Purchase of Company's issued share capital	–	–	–	25	–	25
At 31 December 2013	42	–	(614)	31	–	(541)

¹ Of the \$60 million (2012: \$50 million) of foreign exchange differences recognised in the currency translation reserve for the year, \$1 million (2012: a credit of \$2 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 was 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 and the repurchase of Kazakhmys PLC shares received from the ENRC disposal in 2013, 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.

30. Borrowings

	Maturity	Average interest rate during the year	Currency of denomination	Current \$ million	Non-current \$ million	Total \$ million
31 December 2013						
Continuing operations						
CDB/Samruk-Kazyna facility – US\$ LIBOR + 4.80%	2025	5.26%	US dollar	503	2,065	2,568
CDB – Aktogay facility – US\$ LIBOR + 4.20%	2026	6.55%	RMB	–	57	57
Pre-export finance facility – US\$ LIBOR + 2.80%	2017	2.98%	US dollar	–	486	486
				503	2,608	3,111
31 December 2012						
Continuing operations						
CDB/Samruk-Kazyna facility – US\$ LIBOR + 4.80%	2025	5.54%	US dollar	29	2,439	2,468
Discontinued operations						
Revolving trade finance facility – EURIBOR + 2.25%	2015	2.60%	Euro	–	125	125

Pre-export finance facility

On 20 December 2012, Kazakhmys Finance PLC, 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 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.

On 27 December 2013, the facility was reduced to \$500 million, being the amount drawn at the end of the availability period. Arrangement fees with an amortised cost of \$14 million, gross cost before amortisation of \$18 million, have been netted off against these borrowings in accordance with IAS 39. At 31 December 2012, the facility was undrawn.

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 CDB by 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 \$2.7 billion financing line.

The funds, which were fully drawn in January 2013, attract interest semi-annually at an annualised rate of US\$ LIBOR plus 4.80%. The loans have a final maturity falling between January 2022 and August 2025 and the first repayment commenced in January 2013.

As at 31 December 2013, \$2.6 billion (2012: \$2.5 billion) was drawn under the facility agreements. Arrangement fees with an amortised cost as at 31 December 2013 of \$25 million (2012: \$32 million), (gross cost before amortisation of \$43 million (2012: \$40 million)), have been netted off against these borrowings in accordance with IAS 39. In January 2014, the Group repaid early \$400 million under this facility related to the Akbastau-Kosmurun and Zhomart projects, as development of these projects is not expected to commence in the near future.

30. Borrowings continued

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 (\$165 million equivalent at the RMB/US\$ exchange rate on 31 December 2013). The US dollar agreement attracts interest at US\$ LIBOR plus 4.20% 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 the first draw down. At 31 December 2012, the finance facility remained undrawn. Kazakhmys PLC acts as guarantor of the loan.

During 2013, the Group had drawn down CNY 350 million (\$57 million) under the RMB facility. Arrangement fees with an amortised cost of \$0.6 million, gross cost before amortisation of \$0.8 million, have been netted off against these borrowings in accordance with IAS 39. In order to protect the Group from currency risks arising on this CNY denominated debt, the Group has entered into a CNY/US\$ cross currency swap during the year. This derivative instrument provides a hedge against any movement in the CNY exchange rate against the US dollar and also swaps the interest basis from a CNY interest rate into a US\$ LIBOR interest basis. The fair value of the swap at 31 December 2013 is not material.

Undrawn project and general and corporate purpose facilities

\$ million	2013	2012
Pre-export finance facility (within Kazakhmys Finance)	–	1,000
CDB Aktogay finance facility (within Kazakhmys Finance)	1,443	1,500
CDB/Samruk-Kazyna project specific finance facility (within Kazakhmys Finance)	–	200
Revolving credit facilities (within Kazakhmys Finance)	100	300
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	82	85
	1,625	3,085

31. Employee benefits

Kazakhmys LLC provides post-retirement benefits and other long-term benefits in Kazakhstan which are unfunded. The largest portion of the employee benefits provision is other long-term benefits, of which the most significant is for the long-term disability allowances. The other benefits provided include one-time retirement grants, financial aid, dental care, medical benefits, sanatorium visits, annual financial support to pensioners and funeral aid.

The amounts recognised in the income statements are as follows:

\$ million	2013	2012
Employer's share of current service cost	19	2
Employer's share of past service cost	84	–
Actuarial losses recognised in period	74	190
Interest cost on benefits obligation	26	15
	203	207

In accordance with Kazakhstan law, the Group obtained insurance cover for the disability payments to employees from February 2005. These disability payments that were covered by insurance contracts were accounted for under IAS 19 'Employee benefits' as an insured benefit, with no asset or liability being recognised on the Group's balance sheet. During 2013, as a result of financial difficulties, the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. The Group has agreed to meet these future disability payments. Consequently at 31 December 2013, the liability for the future disability benefit payments to the employees previously covered by the insurance contracts has been included in the disability benefits obligation. Of the total income statement charge of \$203 million for the year, \$84 million relates to the assumption of this obligation by the Group and has been treated as a one-off special item. Also included in the income statement charge are the current service cost of \$19 million and actuarial losses recognised in the period of \$74 million arising from an increase in the number of new claimants and changes in the actuarial assumptions.

The expense is recognised in the following line items of the income statements:

\$ million	2013	2012
Administrative expenses	177	192
Finance costs	26	15
	203	207

The movement in the defined employee benefits obligation is as follows:

\$ million	2013	2012
At 1 January	373	212
Employer's share of current service cost	19	2
Employer's share of past service cost	84	–
Net actuarial losses arising in the income statement	74	190
Net actuarial losses recognised in other comprehensive income	27	–
Interest cost on benefit obligation	26	15
Benefits paid	(52)	(41)
Net exchange adjustment	(8)	(5)
Defined benefit obligation at 31 December	543	373

The movement in the plan asset is as follows:

\$ million	2013	2012
At 1 January	–	–
Interest income	1	–
Contributions by employer	64	41
Benefits paid	(52)	(41)
Fair value of plan assets at 31 December	13	–

The employee benefits obligation of \$530 million, consists of \$60 million (2012: \$36 million) related to post-employment benefits and \$470 million (2012: \$337 million) related to other long-term benefits.

The net liability and expected settlement of the defined benefit obligation is as follows:

\$ million	2013	2012
Defined benefit obligation	543	373
Less fair value of plan assets	13	–
Net liability recognised at 31 December	530	373
Current	53	43
Non-current	477	330
	530	373

The principal actuarial assumptions used in determining the employee benefit obligation are as follows:

	2013	2012
Discount rate at 31 December	8.2%	7.2%
Future salary increases	3.4%	3.2%
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	2013	2012	2011	2010	2009
Defined benefit obligation	543	373	211	58	50
Plan assets	13	–	–	–	–
Deficit	(530)	(373)	(211)	(58)	(50)
Experience adjustments on plan liabilities	91	190	6	–	–

The Group continues to pay the non-monetary benefits described in note 11.

32. Provisions

\$ million	Site restoration and clean up	Payments for licences	Other	Total
At 1 January 2012	54	37	38	129
Arising/(reversing) during the year	9	5	(38)	(24)
Utilised	(1)	(5)	–	(6)
Unwinding of discount	4	4	–	8
Disposal of subsidiary	(1)	(1)	–	(2)
At 31 December 2012	65	40	–	105
Arising/(reversing) during the year	1	(1)	–	–
Utilised	(1)	(6)	–	(7)
Unwinding of discount	4	4	–	8
Net exchange adjustment	(2)	(1)	–	(3)
At 31 December 2013	67	36	–	103
Current	–	5	–	5
Non-current	67	31	–	98
At 31 December 2013	67	36	–	103
Current	–	5	–	5
Non-current	65	35	–	100
At 31 December 2012	65	40	–	105

(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 8.2% (2012: 7.2%) per year. The liability becomes payable at the end of the useful life of each mine which ranges from one to 49 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 8.2% (2012: 7.2%). 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 at 1 January 2012 of \$38 million related to a potential exposure to environmental pollution charges ('EPC') which arose from the tax audit conducted at Kazakhmys LLC for the years 2006 to 2008 inclusive. 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. Consequently, the Directors believed that the likelihood of further liabilities or exposures existing in respect of EPC for the periods 2006 to 2008 was remote and the provision of \$38 million was released in the year ended 31 December 2012.

33. Trade and other payables

\$ million	2013	2012
Payables under social obligations	146	168
Trade payables	192	116
Salaries and related payables	92	90
Other taxes payable	48	56
Interest payable	64	55
Mineral extraction tax payable	54	71
Amounts payable to related parties	6	1
Payments received in advance	7	32
Other payables and accrued expenses	22	33
	631	622

34. Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

\$ million	2013	2012
(Loss)/profit before taxation from continuing operations	(681)	151
Loss before taxation from discontinued operations	(1,223)	(2,329)
Interest income	(12)	(17)
Interest expense	53	84
Share-based payments	5	6
Depreciation and depletion	282	269
Amortisation	6	7
Share of profits from joint venture	(89)	(126)
Share of (profits)/losses from associate	(65)	258
Impairment losses	1,535	2,443
Unrealised foreign exchange loss	32	6
Loss on disposal of subsidiary	1	8
Loss on disposal of associate	528	–
Loss on disposal of property, plant and equipment	14	2
Operating cash flows before changes in working capital and provisions	386	762
Increase in non-current VAT receivable	(44)	(69)
Decrease/(increase) in inventories	145	(40)
Decrease/(increase) in prepayments and other current assets	31	(177)
(Increase)/decrease in trade and other receivables	(185)	52
Increase in employee benefits	138	168
Increase/(decrease) in provisions	6	(35)
Increase in trade and other payables	27	171
Cash flow from operations before interest, income taxes and dividends from associate and joint venture	504	832

Non-cash transactions

There were the following non-cash transactions:

- as stated in note 5(a)(v) the Group capitalised depreciation of \$14 million (2012: \$12 million) for property, plant and equipment and mining assets.
- the Group released \$1 million (2012: \$5 million) relating to provisions for contractual reimbursements payable to the Government for geological information and social commitments with a corresponding increase in intangible assets.
- the reassessment of the site restoration and clean up provisions during the year has resulted in the capitalisation of \$1 million (2012: \$9 million) to property, plant and equipment, with a corresponding increase in the site restoration and clean up provisions.

35. Movement in net debt

\$ million	At 1 January 2013	Cash flow	Attributable to discontinued operations	Other movements ¹	At 31 December 2013
Cash and cash equivalents	1,246	470	4	(5)	1,715
Current investments	515	110	–	–	625
Borrowings	(2,468)	(683)	56	(16)	(3,111)
Net debt	(707)	(103)	60	(21)	(771)

\$ 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 liquid funds/(debt)	19	(711)	6	(21)	(707)

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 2013, the \$16 million other movement on borrowings consists of \$14 million amortisation of fees on the Group's financing facilities and \$2 million foreign exchange differences on the CDB Aktogay RMB facility. For the year ended 31 December 2012, the \$13 million movement in current investments relates to the investments disposed of when a Kazakhstan subsidiary company was sold in early 2012 (see note 9(c)).

36. Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2013 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 treasury 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. Limits on the size and type of any derivative hedge transaction are laid down by the Board and subject to strict internal controls.

(b) Categories of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities by categories are as follows:

\$ million	Notes	2013	2012
Loans and receivables ¹	23,26,27,28	2,584	1,892
Available for sale assets ²	23	19	16
Financial liabilities measured at amortised cost ³	30,32,33	(3,669)	(2,971)

¹ Loans and receivables comprise long-term deposits within other non-current investments (see note 23), 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 23).

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 2013, to protect the Group from currency risks arising on the CDB Aktogay CNY denominated debt, the Group has entered into a CNY/USD cross currency swap. This derivative instrument provides a hedge against any movement in the CNY exchange rate against the US dollar and also swaps the interest basis from a CNY interest rate into a USD LIBOR interest basis.

(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 2013 and 2012 these exposures were as follows:

\$ million	US dollar	UK sterling	Euro	KZT	Other
2013					
Company	n/a	(2)	–	–	–
Kazakhmys LLC	386	–	(4)	n/a	(1)
Other trading companies	(369)	–	–	n/a	(2)
Non-trading or holding companies	105	6	8	1,272	(57)
	122	4	4	1,272	(60)

\$ 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

(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
2013						
Trade and other receivables	449	–	(1)	1,269	–	1,717
Current investments	50	–	–	–	–	50
Cash and cash equivalents	68	6	9	6	3	92
Provisions for cash payments	(34)	–	–	–	–	(34)
Borrowings	(268)	–	–	–	(57)	(325)
Trade and other payables	(143)	(2)	(4)	(3)	(6)	(158)
	122	4	4	1,272	(60)	1,342

\$ 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

(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 2013. 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 2012:

\$ million	Impact on profit	
	2013	2012
KZT	(126)	(80)
Euro	–	–
UK sterling	–	–
RMB	–	–

36. Financial risk management continued

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 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 2013. 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 after the period end would have no impact on (loss)/profit after tax (2012: \$nil). This analysis assumes that all other variables, in particular costs, remain constant and was performed on the same basis as 2012.

(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 2013 and 2012.

At 31 December 2013 and 2012 all borrowings were at floating rates. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

\$ million	At 31 December 2013			
	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Non-current investments	–	9	19	28
Trade and other receivables	–	–	235	235
Current investments	–	625	–	625
Cash and cash equivalents	494	1,155	66	1,715
Total financial assets	494	1,789	320	2,603
Financial liabilities				
Provisions for cash payments	–	36	–	36
Borrowings	3,111	–	–	3,111
Trade and other payables ¹	–	–	522	522
Total financial liabilities	3,111	36	522	3,669

\$ million	At 31 December 2012			
	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

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 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 2013. 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 \$20 million (2012: \$15 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 ongoing 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 2013 or 2012. 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 2013, 10 (2012: 10) customers accounted for 87% (2012: 56%) of the trade and other receivables balance of Kazakhmys Mining. By 24 February 2014, 100% (20 March 2013: 99.85%) of year-end balances due from these customers had been received in full.

36. Financial risk management continued**(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	2013	2012
Europe	8	8
China	150	68
Kazakhstan	63	43
Other	14	3
	235	122

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

\$ million	2013		2012	
	Gross	Impairment	Gross	Impairment
Not past due	228	–	109	–
Past due 0-90 days	6	–	7	–
Past due 91-180 days	2	(1)	4	–
Past due 181-270 days	4	(4)	8	(6)
More than 270 days	47	(47)	50	(50)
	287	(52)	178	(56)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

\$ million	2013	2012
At 1 January	56	52
Charged to income statement	12	4
Written off	(16)	–
At 31 December	52	56

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 arise 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	2013	2012
Non-current investments	28	25
Trade and other receivables	235	122
Current investments	625	515
Cash and cash equivalents	1,715	1,246
	2,603	1,908

(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 \$100 million and by maintaining cash on the balance sheet (see note 30).

The Group's policy is to centralise debt and surplus cash balances to the maximum extent possible.

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
2013						
Provisions for cash payments ¹	–	(1)	(4)	(23)	(21)	(49)
Borrowings ²	–	(449)	(190)	(1,743)	(1,640)	(4,022)
Trade and other payables ³	–	(522)	–	–	–	(522)
	–	(972)	(194)	(1,766)	(1,661)	(4,593)
Non-current investments	–	–	–	19	9	28
Trade and other receivables	–	235	–	–	–	235
Current investments	–	–	625	–	–	625
Cash and cash equivalents	590	1,125	–	–	–	1,715
	590	1,360	625	19	9	2,603
	590	388	431	(1,747)	(1,652)	(1,990)

\$ 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)

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	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Non-current investments	28	28	25	25
Trade and other receivables	235	235	122	122
Current investments	625	625	515	515
Cash and cash equivalents	1,715	1,715	1,246	1,246
Provisions for cash payments	(36)	(36)	(40)	(40)
Borrowings	(3,111)	(3,133)	(2,468)	(2,456)
Trade and other payables ¹	(522)	(522)	(463)	(463)
	(1,066)	(1,088)	(1,063)	(1,051)

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.

36. Financial risk management continued

(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 2013, total capital employed (which comprises equity holders' funds, non-controlling interests and borrowings) of the Group amounted to \$7,332 million, compared to \$8,733 million at 31 December 2012. Total capital employed is the measure of capital that is used by the Directors in managing capital.

At 31 December 2013, the Group is in a net debt position from continuing operations of \$771 million (2012: \$707 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. 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.

37. 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 2013 and 2012, 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.

(iv) Kazakhmys Mining – excess profits tax

In October 2011, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC in relation to past disputes over the interpretation of the EPT legislation. As part of this ruling, the Supreme Court also found that Kazakhmys LLC should not have been an EPT payer in the periods up to and including 2008. Kazakhmys LLC subsequently submitted a claim for \$108 million to the Ministry of Finance. By 31 December 2012, \$60 million had been reimbursed by set-off against the 2012 tax year income tax and mineral extraction tax liabilities and was recognised in the consolidated financial statements as a special item. The remaining \$48 million of the \$108 million claim was challenged by the Ministry of Finance, who believe that this amount relates to periods beyond the Kazakhstan statute of limitations, and was not reimbursed. As a result, 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 believed that there was sufficient uncertainty over the recoverability of this amount such that an asset was not recognised in the consolidated financial statements as at 31 December 2012.

In 2013, the Ministry of Finance continued its legal action over the remaining \$48 million of the \$108 million claim, with their appeal reaching the Supreme Court. In October 2013, the Supreme Court ruled in favour of Kazakhmys LLC confirming Kazakhmys LLC's right to receive the remaining \$48 million of the past EPT payments. In November 2013 the tax authorities lodged a formal appeal with the Attorney General of Kazakhstan against the Supreme Court's ruling. As the outcome and timing of any decision in respect of this appeal and the recoverability of the \$48 million remains sufficiently uncertain a credit has not been recognised for this amount in the consolidated income statement for the year ended 31 December 2013.

(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 32), 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) Capital expenditure commitments

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. The total commitments in property, plant and equipment as at 31 December 2013 amounted to \$861 million (2012: \$1,208 million).

(f) Operating lease commitments

The operating lease expense for the year was \$4 million (2012: \$4 million). At 31 December 2013 and 2012, the Group had the following total commitments under non-cancellable operating leases:

\$ million	2013	2012
Within one year	5	4
After one year but not more than five years	18	17
More than five years	48	40
	71	61

38. 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 ¹	Amounts owed to related parties
Companies under trust management				
2013	12	6	43	6
2012	10	9	58	–
Other				
2013	2	20	11	–
2012	2	23	13	1

¹ A provision of \$46 million (2012: \$56 million) is held set against the amounts owed by related parties. The bad debt reversal in relation to related parties was \$10 million for the year (2012: expense of \$3 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 increased to 26.57% as at 31 December 2012.

On 19 June 2013, the Government transferred its entire shareholding to Eurasian Resources.

Eurasian Resources

Eurasian Resources held 139,162,843 ordinary shares in Kazakhmys PLC following a transfer from the Government of Kazakhstan on 19 June 2013. As part of the settlement of the consideration under the ENRC Takeover Offer on 8 November 2013 Kazakhmys PLC received from Eurasian Resources 77,041,147 of its ordinary shares, which were subsequently cancelled.

China Development Bank ('CDB') and Samruk-Kazyna financing line

As explained in note 30, 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

In 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 (2012: \$nil).

Dividend payment

The Government's share of the dividend paid by the Company in 2013 was \$11 million (2012: \$32 million).

(ii) ENRC

In 2013, the Group received no dividends from ENRC (2012: \$59 million).

(iii) Ekibastuz GRES-I

In 2013, the Group received no dividends from Ekibastuz GRES-I, the joint venture in which the Group has a 50% interest (2012: \$28 million).

(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 and road maintenance. 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.

39. Share-based payment plans

The Company's share-based payment plans consist of a Long Term Incentive Plan (LTIP), an Executive Share Option Plan (ESOP) and a Deferred Share Bonus Plan (DSBP). The total expense for the year ended 31 December 2013 arising from these plans was \$5 million (2012: \$6 million). The total number of shares outstanding under these schemes as at 31 December 2013 was 2,567,348 (2012: 1,623,806). The total number of shares exercisable under these schemes as at 31 December 2013 was 168,966 (2012: 219,080).

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. For any future awards, the Company may issue new shares rather than purchase the shares in the open market through the Employee Benefit Trust.

40. Company financial statements

(a) Company balance sheet

\$ million	Notes	2013	2012
Assets			
Non-current assets			
Investments	40(e)	6,483	6,480
Deferred tax asset		1	1
		6,484	6,481
Current assets			
Prepayments and other current assets		3	2
Income taxes reclaimable		–	1
Intercompany loan	40(f)	323	646
Trade and other receivables	40(g)	13	14
Cash and cash equivalents	40(k)	–	1
		339	664
Total assets		6,823	7,145
Equity and liabilities			
Equity			
Share capital	29(a)	171	200
Share premium		2,650	2,650
Capital reserves	40(i)	798	771
Retained earnings		3,098	3,449
Total equity		6,717	7,070
Current liabilities			
Trade and other payables	40(j)	7	4
Intercompany payables	40(m)	99	71
Total liabilities		106	75
Total equity and liabilities		6,823	7,145

These financial statements were approved by the Board of Directors on 26 February 2014.

Signed on behalf of the Board of Directors

Oleg Novachuk

Chief Executive Officer

Andrew Southam

Chief Financial Officer

(b) Company statement of cash flows

\$ million	Notes	2013	2012
Cash flows from operating activities			
(Loss)/profit before taxation		(6)	51
Interest income		(1)	(1)
Share-based payments	39	3	6
Non-cash contribution to subsidiary for share-based payments	40(e)	–	(9)
Dividends received		(60)	(100)
Operating cash flows before changes in working capital		(64)	(53)
Increase in prepayments and other current assets		(1)	–
Decrease in trade and other receivables		12	23
Increase/(decrease) in trade and other payables		3	(2)
Increase in intercompany payables		28	71
Cash flows from operations before interest, income taxes and dividends received		(22)	39
Income taxes paid		(1)	(7)
Dividends received		60	100
Net cash flows from operating activities		37	132
Cash flows from investing activities			
Capital contributions into subsidiary undertakings	40(e)	–	(2)
Net cash flows used in investing activities		–	(2)
Cash flows from financing activities			
Purchase of Company's issued share capital		(319)	(88)
Amounts repaid under intercompany loans		323	79
Dividends paid by the Company	17	(42)	(121)
Net cash flows used in financing activities		(38)	(130)
Net decrease in cash and cash equivalents	40(k)	(1)	–
Cash and cash equivalents at the beginning of year	40(k)	1	1
Cash and cash equivalents at the end of year	40(k)	–	1

(c) Company statement of changes in equity

\$ million	Notes	Share capital	Share premium	Capital reserves ¹	Retained earnings	Total equity
At 1 January 2012		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		–	–	–	6	6
Employee share awards exercised		–	–	2	–	2
Own shares acquired under the share buy-back programme		–	–	–	(88)	(88)
Dividends paid	17	–	–	–	(121)	(121)
At 31 December 2012		200	2,650	771	3,449	7,070
Profit for the year		–	–	–	3	3
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	3	3
Share-based payment		–	–	–	3	3
Employee share awards exercised		–	–	2	–	2
Purchase of Company's issued share capital	29(a)	(29)	–	25	(315)	(319)
Dividends paid	17	–	–	–	(42)	(42)
At 31 December 2013		171	2,650	798	3,098	6,717

¹ Refer to note 40(i) for an analysis of 'Capital reserves'.

40. Company financial statements continued

(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.

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	2013	2012
Cost		
At 1 January	7,573	7,462
Additions	3	111
At 31 December	7,576	7,573
Provision for impairment		
At 1 January	1,093	1,093
Charged to the income statement	–	–
At 31 December	1,093	1,093
Net book value	6,483	6,480

(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 1 January 2012 to 99.90% at 31 December 2012.

(ii) ENRC

The Company, via an intermediate holding company, held 334,824,860 shares in ENRC representing 26.0% of the issued share capital, until its disposal on 8 November 2013.

(iii) Kazakhmys Services Limited

In 2013, an additional investment of \$3 million (2012: \$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.

(iv) Kazakhmys Finance PLC

In 2012, 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 or via intermediate holding companies for those businesses in Central Asia and Germany.

(f) Company intercompany loan

The intercompany loan receivable of \$323 million due from Kazakhmys Finance PLC (2012: \$646 million) 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 2013, interest receivable of \$3 million (2012: \$3 million) had accrued on this loan balance and is included within intercompany receivables (note 40(g)).

(g) Company trade and other receivables

\$ million	2013	2012
Intercompany receivables	3	3
Group tax relief receivables	10	11
	13	14

Group tax relief is due from Kazakhmys Sales Limited of \$10 million (2012: \$11 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 2012	779	6	(16)	769
Own shares issued upon exercise of options	–	–	2	2
At 31 December 2012	779	6	(14)	771
Own shares issued upon exercise of options	–	–	2	2
Purchase of Company's issued share capital	–	25	–	25
At 31 December 2013	779	31	(12)	798

¹ During 2012, 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 and the re-purchase of Kazakhmys PLC shares received from the ENRC disposal in 2013, 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	2013	2012
Salaries and related payables	2	3
Other payables and accrued expenses	5	1
	7	4

(k) Company movement in net liquid funds

\$ million	At 1 January 2013	Cash flow	At 31 December 2013
Cash and cash equivalents	1	(1)	–
Borrowings	–	–	–
Net liquid funds	1	(1)	–

\$ million	At 1 January 2012	Cash flow	At 31 December 2012
Cash and cash equivalents	1	–	1
Borrowings	–	–	–
Net liquid funds	1	–	1

(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.

40. Company financial statements continued

(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	2013	2012
Intercompany loans	323	646
Trade and other receivables	13	14
Cash and cash equivalents	–	1
	336	661

The exposure to credit risk for intercompany loans and trade and other receivables at 31 December 2013 and 2012 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:

\$ million	At 31 December 2013			
	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Intercompany loans	323	–	–	323
Trade and other receivables	–	–	13	13
Cash and cash equivalents	–	–	–	–
Total financial assets	323	–	13	336
Financial liabilities				
Trade and other payables	–	–	(7)	(7)
Intercompany payables	–	–	(99)	(99)
Total financial liabilities	–	–	(106)	(106)

\$ million	At 31 December 2012			
	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)

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	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Intercompany loans	323	323	646	646
Trade and other receivables	13	13	14	14
Cash and cash equivalents	–	–	1	1
Trade and other payables	(7)	(7)	(4)	(4)
Intercompany payables	(99)	(99)	(71)	(71)
	230	230	586	586

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 36(i)).

(m) Company related party disclosures

(i) Transactions with related parties

Transactions with related parties comprise interest received from Kazakhmys Finance PLC of \$1 million (2012: \$1 million) and management fees to Kazakhmys Services Limited for services provided on behalf of the Company during the year under a management service agreement of \$30 million (2012: \$46 million).

The amounts outstanding from subsidiary companies are provided in notes 40(f) and 40(g).

The intercompany payables amount of \$99 million is due to Kazakhmys Services Limited for management fees discussed above and other services (2012: \$71 million). The balance is payable on demand and is interest free.

As explained in note 40(e), 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 \$60 million dividends from Kazakhmys Sales Limited (2012: \$100 million) during the year.

An additional investment of \$3 million relating to capital contributions was made to Kazakhmys Services Limited during 2013 (2012: \$9 million) (see note 40(e)).

The Government became a related party shareholder of the Company on 24 July 2008 and remained as such when on 19 June 2013 it transferred its entire shareholding to Eurasian Resources. Following the completion of the Group's disposal of the ENRC investment to Eurasian Resources on 8 November 2013, the Government, a direct shareholder in Eurasian Resources, and Eurasian Resources are no longer considered to be related parties of the Company or Group. Transactions involving the Government are explained in note 38.

(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.

40. 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 2013 %	Equity interest at 31 December 2012 %
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	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	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

¹ Indirectly held by the Company.

² Sold in May 2013 (see note 9(a)).

(o) Guarantees

The Company is the guarantor for the following:

- as explained in note 30, 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 2013;
- as explained in note 30, 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 2013, Kazakhmys Finance PLC had signed loan facilities amounting to \$2.7 billion which were fully drawn at that date;
- as explained in note 30, 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 8.5% 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 30, 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.

41. Events after the balance sheet date

(a) Shareholders vote on Ekibastuz GRES-I

On 7 January 2014, the Group's shareholders approved the sale of the remaining 50% of the issued share capital of Ekibastuz GRES-I and 100% of the issued share capital of Kaz Hydro to Samruk-Energo (see note 21).

(b) Repayment of \$400 million under the CDB/Samruk-Kazyna financing facilities

On 9 January 2014, the Group repaid early \$400 million of the CDB/Samruk-Kazyna financing facility relating to two mid-sized projects.

(c) Kazakhstan tenge ('KZT') devaluation

On 11 February 2014, the National Bank of Kazakhstan announced it would seek to support the tenge at around 185 KZT to the US Dollar with the tenge quickly trading to this level, a 19% devaluation. Should this exchange rate be sustained, the Group's operating costs which have an underlying tenge exposure will reduce when reported in US Dollars, however the benefit is likely to be partially offset by higher inflation, including the impact of a planned increase in salaries at Kazakhmys of up to 10%, with effect from 1 April 2014.

\$ million (unless otherwise stated)	2013	2012	2011	2010	2009
Results					
Revenues ¹	3,099	3,353	3,563	3,237	2,404
(Loss)/profit before finance items and taxation ¹	(602)	242	1,125	1,099	549
(Loss)/profit before taxation ¹	(681)	151	1,057	1,032	805
(Loss)/profit after taxation ¹	(808)	65	836	(1,949)	544
(Loss)/profit for the year from discontinued operations	(1,224)	(2,335)	94	621	9
(Loss)/profit attributable to equity shareholders	(2,030)	(2,271)	930	1,450	554
Assets employed					
Non-current assets	4,032	6,699	8,355	8,095	6,408
Current assets	4,587	3,294	3,376	2,900	3,555
Non-current liabilities	(3,197)	(2,870)	(1,648)	(1,484)	(1,376)
Current liabilities	(1,201)	(858)	(1,251)	(1,292)	(1,992)
Net assets	4,221	6,265	8,832	8,219	6,595
Financed by					
Equity	4,217	6,259	8,825	8,206	6,582
Minority interests	4	6	7	13	13
	4,221	6,265	8,832	8,219	6,595
Key statistics					
Segmental EBITDA (excluding special items)	873	1,364	1,959	1,932	1,211
Group EBITDA (excluding special items)	1,149	1,912	2,925	2,835	1,634
Underlying Profit	190	492	1,498	1,489	602
Free Cash Flow	(171)	85	824	718	579
EPS – basic and diluted (\$)	(3.96)	(4.33)	1.75	2.71	1.04
EPS based on Underlying Profit (\$)	0.37	0.94	2.80	2.79	1.13
Dividends per Share (US cents)	–	11.0	28.0	22.0	–
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	222	174	114	89	72
Maintenance spend per tonne of own copper cathode (\$/t)	1,435	2,065	1,237	1,075	644

¹ From continuing operations only.

I. Summary of significant production and sales figures

kt (unless otherwise stated)	2013	2012
Kazakhmys Mining		
Ore mined ¹	39,191	37,507
Copper content in ore mined (%)	0.99	0.95
Copper cathode production:		
From own concentrate	263	292
From purchased concentrate	2	2
Total copper cathodes produced	265	294
Total copper cathodes equivalent production²	296	294
Total copper cathodes equivalent sales	312	282
Zinc in concentrate production	134	152
Silver own production ³ (koz)	14,348	12,643
Gold bar own production (koz)	103	116
Gold doré production (koz)	5	13
Kazakhmys Power		
Electricity power generation sales ⁴ (GWh)	5,723	5,562

¹ Excludes output from the Bozymchak mine and from mines in the former Gold division: Central Mukur and Mizek.

² Includes production of copper cathode equivalent of copper in concentrate sold and cathode converted into rod.

³ Includes production from mines in the former Gold division: Central Mukur and Mizek, and silver granules equivalent in copper concentrate sold.

⁴ Represents captive power stations.

2. Kazakhmys Mining

(a) Metal mining¹

	Ore mined		Copper		Zinc		Gold		Silver	
	2013 kt	2012 kt	2013 %	2012 %	2013 %	2012 %	2013 g/t	2012 g/t	2013 g/t	2012 g/t
Zhezkazgan Region										
North	2,601	2,712	0.66	0.54	–	–	–	–	6.98	4.36
South	5,274	5,166	0.75	0.64	–	–	–	–	15.50	15.00
Stepnoy	3,302	3,217	0.69	0.62	–	–	–	–	16.24	9.97
East	3,417	3,722	0.78	0.56	–	–	–	–	12.24	8.68
West	3,518	2,845	0.82	0.54	–	–	–	–	11.44	12.65
Annensky	–	1,194	–	0.68	–	–	–	–	–	14.74
Zhomart	3,738	3,745	1.11	1.35	–	–	–	–	9.22	9.12
Total Zhezkazgan Region	21,850	22,601	0.81	0.72	–	–	–	–	12.36	10.68
Central Region										
Konyrat	4,810	2,784	0.30	0.29	–	–	–	–	1.20	1.98
Shatyrkul	646	648	2.24	2.38	–	–	0.35	0.38	2.02	2.28
Sayak I and Sayak III	1,814	1,719	0.90	0.77	–	–	0.22	0.21	4.66	4.70
Abyz	391	500	0.62	1.07	1.98	2.39	2.68	3.41	19.46	31.87
Akbastau	2,163	1,886	1.80	1.52	1.16	0.92	0.64	0.63	16.28	16.31
Nurkazgan	3,167	2,662	0.60	0.58	–	–	0.27	0.22	1.44	1.80
Total Central Region	12,991	10,199	0.81	0.84	1.28	1.23	0.48	0.55	4.84	6.53
East Region										
Orlovsky	1,557	1,580	3.45	3.04	5.31	4.29	1.27	1.09	66.81	55.96
Irtysky	626	610	1.49	1.39	3.31	2.91	0.27	0.26	50.78	50.82
Nikolaevsky	–	208	–	0.83	–	1.65	–	0.36	–	20.78
Yubileyno-Snegirikhinsky	835	769	2.30	2.82	1.85	2.50	0.46	0.42	25.18	26.10
Artemyevsky	1,332	1,540	1.68	1.92	4.65	6.31	0.92	1.09	90.83	115.35
Total East Region²	4,350	4,707	2.41	2.33	4.16	4.36	0.86	0.84	63.87	68.30
Total Kazakhmys Mining	39,191	37,507	0.99	0.95	3.09	3.31	0.61	0.66	15.59	16.78

¹ Totals only relate to producing mines.

² Excluding Bozymchak mine.

(b) Coal mining

	Coal mined		Waste stripped		Strip ratio	
	2013 kt	2012 kt	2013 kbcm	2012 kbcm	2013 bcm:t	2012 bcm:t
Molodezhny	6,842	6,672	14,788	14,283	2.16	2.14
Kusheki	802	676	3,205	4,418	4.00	6.54
Total Kazakhmys Mining	7,644	7,348	17,993	18,701	2.35	2.55

2. Kazakhmys Mining continued

(c) Copper processing

	Copper concentrate produced		Copper in concentrate	
	2013 kt	2012 kt	2013 %	2012 %
Zhezkazgan Region				
Zhezkazgan	398	355	34.4	33.7
Satpayev	38	77	21.9	23.5
Total Zhezkazgan Region	436	432	33.3	31.9
Central Region				
Balkhash	268	252	15.2	16.5
Karagaily (Abyz)	33	52	3.7	5.8
Karagaily (Akbastau)	235	183	10.4	9.8
Nurkazgan (Akbastau)	8	18	17.4	16.7
Nurkazgan	80	70	18.7	18.6
Total Central Region	624	575	13.3	13.6
East Region				
Orlovsky	261	235	18.2	18.1
Belousovsky	61	71	16.5	16.5
Irtysky	39	37	18.8	18.5
Nikolaevsky	75	95	19.4	21.5
Total East Region	436	438	18.2	18.6
Own copper concentrate processed by third party	26	21	28.3	27.2
Total Kazakhmys Mining (own concentrate)	1,522	1,466	20.7	20.7
Purchased concentrate	3	5	52.6	47.3
Total Kazakhmys Mining (own and purchased concentrate)	1,525	1,471	20.7	20.7

(d) Zinc and precious metals processing

	Zinc concentrate produced		Zinc in concentrate		Silver ¹		Gold ¹	
	2013 kt	2012 kt	2013 %	2012 %	2013 g/t	2012 g/t	2013 g/t	2012 g/t
Zhezkazgan Region								
Zhezkazgan	–	–	–	–	563.6	535.9	–	–
Satpayev	–	–	–	–	430.7	468.6	–	–
Total Zhezkazgan Region	–	–	–	–	552.0	524.4	–	–
Central Region								
Balkhash	–	–	–	–	74.2	84.7	2.7	3.0
Karagaily	1	7	40.8	41.4	67.6	79.5	3.0	5.0
Nurkazgan	–	–	–	–	38.7	53.4	6.3	5.6
Total Central Region	1	7	40.8	41.4	66.3	77.8	3.5	5.1
East Region								
Orlovsky	132	112	46.6	45.7	175.0	163.4	2.0	1.7
Belousovsky	11	18	43.5	40.1	78.2	92.2	1.8	1.1
Irtysky	28	22	47.6	47.5	632.0	593.2	2.7	2.8
Nikolayevsky	68	134	44.8	44.5	550.4	752.0	6.0	6.3
Artemyevsky (KazZinc)	47	38	51.2	51.4	1,708.1³	1,442.9 ³	10.1³	9.3 ³
Total East Region	286	324	46.0²	44.9 ²	267.2²	316.4 ²	2.7²	2.7 ²
Total Kazakhmys Mining (own and purchased concentrate)	287	331	46.9	45.6	291.5	301.2	3.1	3.6

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 cathodes production

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2013 kt	2012 kt	2013 %	2012 %	2013 kt	2012 kt
Zhezkazgan smelter						
Own concentrate	230	354	31.0	29.6	76	111
Purchased concentrate	–	–	–	–	–	–
Other ¹	–	–	–	–	–	–
Total Zhezkazgan smelter	230	354	31.0	29.6	76	111
Balkhash smelter						
Own concentrate	1,185	1,133	17.6	18.0	187	181
Purchased concentrate	3	5	52.6	47.3	2	2
Other ¹	1	–	58.9	78.0	–	–
Total Balkhash smelter	1,189	1,138	17.7	18.1	189	183
Total Kazakhmys Mining (excluding tolling)	1,419	1,492	19.9	20.9	265	294
Tolling	49	62	0.3	0.9	–	1
Total Kazakhmys Mining (including tolling)	1,468	1,554	19.2	20.0	265	295

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	
	2013 kt	2012 kt	2013 kt	2012 kt
Total Kazakhmys Mining (Zhezkazgan smelter)	12	24	1,066	1,053

(g) Precious metal production

	Silver		Gold bar		Gold doré	
	2013 koz	2012 koz	2013 koz	2012 koz	2013 koz	2012 koz
Kazakhmys Mining ¹	14,348	12,643	103	116	5	13
Tolling	–	112	11	18	–	–
Total Kazakhmys Mining (including tolling)	14,348	12,755	114	134	5	13

¹ Includes production from mines in the former Gold division: Central Mukur and Mizek.

(h) Other production

	2013	2012
Enamel wire (t)	1,026	1,268
Lead dust (t)	10,849	9,065

(i) Sales

	2013		2012	
	kt ¹	\$ million	kt ¹	\$ million
Copper cathode	270	1,973	259	2,088
Copper rod	11	85	23	187
Copper in concentrate (cathode equivalent)	31	210	–	–
Total copper cathodes equivalent sales	312	2,268	282	2,275
Zinc metal in concentrate	137	143	151	154
Silver ² (koz)	12,115	287	13,206	414
Silver granule equivalent in copper concentrate sold (koz)	1,391	24	–	–
Gold bar (koz)	105	146	180	300
Gold doré (koz)	4	6	13	22

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

	2013	2012
Copper (\$/t)	7,252	8,067
Zinc concentrate (\$/t)	1,049	1,022
Silver (\$/oz)	23.1	31.3
Gold (\$/oz)	1,390	1,667

3. Kazakhmys Power – production and sales

	2013	2012
Ekibastuz GRES-I		
Electricity power generation ¹ (GWh)	13,492	15,164
Net power generated ¹ (GWh)	12,785	14,368
Net power generated attributable to Kazakhmys ² (GWh)	5,862	7,184
Realised tariff prices (KZT/kWh)	6.44	6.01
Captive Power Stations		
Electricity power generation (GWh)	6,599	6,441
Net power generated (GWh)	5,723	5,562
Heating power (KGcal)	2,466	3,838
Realised tariff prices (KZT/kWh)	5.10	4.19

¹ Presented on a 100% basis for 12 months.

² Based on the Group's 50% non-controlling interest in Ekibastuz GRES-I until 5 December 2013 when the Group's investment in Ekibastuz GRES-I was classified as an asset held for sale. Generation volumes after 5 December 2013 have not been attributed to Kazakhmys.

Ore reserves and mineral 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 standardized national system of reserves and resources estimation is mandatory.

Mineral deposits are classified according to their degree of geological complexity into one of three deposit categories (for copper deposits), which determine the density of exploration sampling and the proportions and classifications of GKZ reserves that must be estimated. As part of the exploitation licence for each mineral deposit, a set of "Conditions for Estimation of Reserves" are prepared by a Kazakhstan licenced design institute and submitted for approval by the State. The Conditions 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 presented 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" (as defined in Kazakhstan) 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.

Kazakhmys have informed IMC that the mature mines in the Zhezkazgan Region will continue to operate but are not expected to generate positive economic returns under their current operating structure. The reserves at these mines have therefore been removed from the tabulation of the Company's Ore Reserves. A separate tabulation is however presented of "Non JORC Compliant Ore Reserves" which shows the tonnage and grade of minerals available for mining at these mines.

The by-product gold, silver and molybdenum grades for Bozshakol are only considered to be estimated to an Inferred Resource level of accuracy.

Generally, at Kazakhmys mines other than in 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, open pit push-back 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" (as defined in Kazakhstan), 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 require that feasibility studies have been completed and that appropriate legal approvals have been granted before reserves can be included in the statement. The JORC Code now specifies that a Pre-feasibility Study is the minimum level of engineering design required before a Mineral Resource can be converted to an Ore Reserve.

These estimates form the basis for the process of presenting the 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 as at 31 December 2013.

Kazakhmys Mining gold mineral 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 ore reserves

Region		Reserves ¹ kt		Copper %		Zinc %		Gold g/t		Silver g/t		Lead %		Molybdenum %	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Zhomart	Proved	39,329	43,887	1.05	1.03	–	–	–	–	8.91	8.35	–	–	–	–
	Probable	47,216	47,400	1.27	1.05	–	–	–	–	27.91	19.94	–	–	–	–
	Total	86,545	91,287	1.17	1.04	–	–	–	–	19.28	14.37	–	–	–	–
Central Region	Proved	210,060	312,574	0.88	0.71	0.09	0.07	0.28	0.22	2.66	2.23	0.01	–	0.01	0.01
	Probable	30,022	28,616	1.63	1.66	0.27	0.29	0.91	0.79	7.46	7.02	0.02	0.02	0.01	0.01
	Total	240,082	341,190	0.97	0.79	0.11	0.09	0.36	0.27	3.26	2.64	0.01	0.01	0.01	0.01
East Region	Proved	30,332	31,567	2.12	2.24	3.85	4.40	0.88	1.05	51.55	35.97	0.85	1.03	–	–
	Probable	16,180	14,957	1.34	1.20	1.00	1.21	0.86	0.93	27.47	31.79	0.18	0.21	–	–
	Total	46,512	46,524	1.85	1.90	2.86	3.37	0.88	1.01	43.18	34.63	0.62	0.77	–	–
Total Kazakhmys Mining	Proved	279,721	388,028	1.04	0.87	0.49	0.41	0.31	0.26	8.84	5.67	0.10	0.08	0.01	–
	Probable	93,418	90,973	1.40	1.27	0.26	0.29	0.44	0.40	21.26	17.83	0.04	0.04	–	–
	Total	373,139	479,001	1.13	0.95	0.43	0.39	0.34	0.29	11.95	7.98	0.08	0.08	0.01	–
Analysed as: Operating mines ²	Proved	273,082	381,389	1.04	0.87	0.50	0.42	0.28	0.24	8.85	5.62	0.10	0.09	0.01	–
	Probable	84,630	82,185	1.46	1.31	0.29	0.32	0.35	0.30	22.60	18.84	0.04	0.05	–	–
	Total	357,712	463,574	1.14	0.95	0.45	0.40	0.30	0.25	12.10	7.96	0.09	0.08	0.01	–
Development project ³	Proved	6,639	6,639	0.84	0.84	–	–	1.43	1.43	8.54	8.54	–	–	–	–
	Probable	8,788	8,788	0.84	0.84	–	–	1.36	1.36	8.36	8.36	–	–	–	–
	Total	15,427	15,427	0.84	0.84	–	–	1.39	1.39	8.44	8.44	–	–	–	–

¹ Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

² Mine extensions are included within the original ore body as part of operating mines.

³ Development project relates to Bozymchak.

Non-JORC Compliant Ore

The mature mines in the Zhezkazgan Region will continue to operate but are not expected to generate positive economic returns under their current operating structure. The reserves at these mines have therefore been removed from the tabulation of the Company's Ore Reserves and the prior year ore reserves have also been included in the table for comparison purposes. A separate tabulation is presented below of "Non JORC Compliant Ore Reserves" which shows the tonnage and grade of minerals available for mining at these mines, which has been excluded from the Ore Reserves.

Region		Reserves ¹ kt		Copper %		Zinc %		Gold g/t		Silver ² g/t		Lead %		Molybdenum %	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Zhezkazgan Region	Proved	82,013	93,814	0.61	0.59	–	–	–	–	0.15	–	–	–	–	–
	Probable	157,496	164,485	0.61	0.64	–	–	–	–	–	–	–	–	–	–
	Total	239,509	258,299	0.61	0.63	–	–	–	–	9.38	8.59	–	–	–	–

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.

Summary of mineral resources

Region		Resources ¹ kt		Copper %		Zinc %		Gold g/t		Silver ² g/t		Lead %		Molybdenum %	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Zhezkazgan Region including Zhomart	Measured	297,151	298,887	1.08	1.11	–	–	–	–	12.44	11.85	–	–	–	–
	Indicated	327,755	302,935	1.02	1.04	–	–	–	–	16.39	15.60	–	–	–	–
	Total	624,906	601,822	1.05	1.08	–	–	–	–	14.51	13.74	–	–	–	–
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Central Region	Measured	1,750,296	1,706,859	0.46	0.46	0.02	0.04	0.09	0.09	1.61	1.91	–	0.02	0.01	0.01
	Indicated	2,816,059	2,855,190	0.40	0.40	–	–	0.07	0.08	1.31	1.29	–	–	0.01	0.01
	Total	4,566,354	4,562,048	0.42	0.42	0.01	0.02	0.08	0.08	1.43	1.52	–	0.01	0.01	0.01
	Inferred	830,412	830,412	0.30	0.30	–	–	0.09	0.09	1.20	1.20	–	–	0.01	0.01
East Region	Measured	41,071	41,440	2.27	2.34	4.09	4.42	0.89	0.97	53.97	53.77	0.89	0.99	–	–
	Indicated	50,736	51,985	1.53	1.44	3.28	3.39	0.85	0.84	56.72	57.72	0.85	1.06	–	–
	Total	91,807	93,425	1.86	1.84	3.64	3.85	0.87	0.90	55.49	55.97	0.87	1.03	–	–
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Kazakhmys Mining	Measured	2,088,518	2,047,186	0.58	0.59	0.10	0.12	0.10	0.10	4.22	4.51	0.02	0.03	0.01	0.01
	Indicated	3,194,550	3,210,110	0.48	0.48	0.06	0.06	0.07	0.08	3.72	3.49	0.01	0.02	0.01	0.01
	Total	5,283,067	5,257,295	0.52	0.52	0.07	0.08	0.08	0.09	3.91	3.89	0.02	0.02	0.01	0.01
	Inferred	830,412	830,412	0.30	0.30	–	–	0.09	0.09	1.20	1.20	–	–	0.01	0.01
Analysed as: Operating mines	Measured	486,797	519,496	0.91	0.93	0.35	0.40	0.18	0.21	8.86	9.20	0.07	0.08	–	–
	Indicated	289,056	321,134	1.06	0.98	0.54	0.47	0.18	0.27	21.63	17.92	0.14	0.16	–	–
	Total	775,853	840,630	0.96	0.95	0.42	0.43	0.18	0.24	13.62	12.53	0.10	0.11	–	–
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Development projects ³	Measured	1,601,721	1,527,690	0.49	0.48	0.02	0.03	0.07	0.06	2.81	2.92	–	0.02	0.01	0.01
	Indicated	2,905,494	2,888,976	0.42	0.42	0.01	0.01	0.06	0.06	1.93	1.89	–	–	0.01	0.01
	Total	4,507,214	4,416,665	0.44	0.44	0.01	0.02	0.06	0.06	2.24	2.24	–	0.01	0.01	0.01
	Inferred	830,412	830,412	0.30	0.30	–	–	0.09	0.09	1.20	1.20	–	–	0.01	0.01

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 Kluch, Bozshakol, Karagaily, Kosmurun, Mizek underground, Nikolayevsky North, Nurkazgan East, Nurkazgan North, Sayak IV, Taskora, Zhaisan, Zhilandy and Zhomart phase II.

Kazakhmys Mining Gold Mineral Resources

Summary of mineral resources

		Resources ¹ kt		Gold g/t		Silver g/t		Copper %		Gold equivalent ² Moz	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Operating mines ³	Measured	1,592	1,592	1.72	1.72	5.10	5.10	0.52	0.52	0.13	0.13
	Indicated	1,725	1,992	1.54	1.51	3.65	3.16	0.48	0.42	0.13	0.14
	Total	3,317	3,584	1.63	1.61	4.35	4.03	0.50	0.46	0.26	0.27
	Inferred	704	704	1.70	1.70	4.97	4.97	0.51	0.51	0.06	0.06
Total Kazakhmys Mining Gold⁴	Measured	1,592	1,592	1.72	1.72	5.10	5.10	0.52	0.52	0.13	0.13
	Indicated	1,725	1,992	1.54	1.51	3.65	3.16	0.48	0.42	0.13	0.14
	Total	3,317	3,584	1.63	1.61	4.35	4.03	0.50	0.46	0.26	0.27
	Inferred	704	704	1.70	1.70	4.97	4.97	0.51	0.51	0.06	0.06

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 \$6,400 (2012: \$6,000) per tonne, gold \$1,300 (2012: \$1,300) per ounce and silver \$22.00 (2012: \$22.00) per ounce.

³ Operating mines consist of the Mizek and Mukur mines.

⁴ Bozymchak has been re-classified as a development project in Kazakhmys Mining for 2012 and 2013.

Coal reserves

		Reserves ¹ MT		Ash ad ² kcal/kg		CV ncv ³ g/t		Sulphur %	
		2013	2012	2013	2012	2013	2012	2013	2012
Kazakhmys Mining ⁴	Proved	346.2	352.4	–	–	–	–	–	–
	Probable	–	–	–	–	–	–	–	–
	Total	346.2	352.4	44.7	45.2	3,679	3,679	0.5	0.5

¹ Includes coal loss and increase in ash content.

² ad – refers to air dried.

³ ncv – refers to net calorific value as received.

⁴ Consists of the Molodezhny and Kusheki coal mines which are part of the Central Region.

Revision of ore reserves and mineral resources statement to 31 December 2013

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 2013. 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 Ore Reserves and Mineral Resources carried out by IMC is predominantly focused each year on mine reserve reports, depletion through production, analysis of company plans, exploration and other changes affecting the Ore Reserves and Mineral 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 considers 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."

The term "economically mineable" has no fixed definition in the JORC Code and short-term fluctuations in factors such as metal prices or operating expenditure do not warrant the re-classification from Ore Reserves to Mineral Resources. If, however, the changes are expected to be long term or permanent in nature, then such re-classification is required.

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 2013 in the case of mines where production and methods have been consistent since 2010. Any discrepancies from the 2010 benchmark were accommodated during discussion with the Company's technical head office team based in Astana, Kazakhstan. In October 2013, IMC visited some of the Kazakhmys operations and development projects where significant changes had occurred since the 2010 CPR study. The changes that occurred have now been incorporated into this report.

The Statement of Ore Reserves and Mineral Resources is presented 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 the preparation of the presentation of ore reserves and mineral resources as at 31 December 2013, 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 guidelines is to provide a standard reporting terminology for use in disclosure of the assets of mining companies to stock markets.

Tim Horner

C.Geol C.Eng P.Geo (Ont)
Principal Geologist, IMC Group Consulting Ltd
4 February 2014

IMC Group Consulting Ltd

Innovate Office Building
Lake View Drive
Sherwood Park
Nottinghamshire NG15 0DT
United Kingdom

Annual General Meeting

The Annual General Meeting of the Company will be held at 12.15pm on Thursday 8 May 2014 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom. The Notice of Annual General Meeting and 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 who are domiciled in the EU 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 2014 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 (4.30pm Hong Kong time) on Tuesday 6 May 2014 (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 Conduct Authority (FCA) at www.fca.org.uk/scams and the matter may be reported to the FCA by e-mailing consumer.queries@fca.org.uk or by calling 0800 111 6768 (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.

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 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. Shareholders on the Hong Kong register of members can 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 2014, 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.

Shareholder interests at 31 December 2013

Number of shareholders: 2,163

Number of shares in issue: 458,379,033

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	1,192	55.11	0.09
1,001 to 5,000	444	20.53	0.23
5,001 to 10,000	133	6.15	0.22
10,001 to 100,000	215	9.94	1.73
Over 100,000	179	8.27	97.73
Total	2,163	100.00	100.00

By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	927	42.85	0.55
Banks/nominees	1,192	55.10	94.82
Pension funds	1	0.05	0.00
Investment/unit trusts	1	0.05	0.00
Insurance companies	2	0.09	0.00
Corporate holders	37	1.71	1.98
Hong Kong Share Register	1	0.05	0.10
Share Plan Control Account	1	0.05	0.00
Treasury Account	1	0.05	2.55
Total	2,163	100.00	100.00

Events calendar

Q1 Interim Management Statement	April 2014
Annual General Meeting	8 May 2014
Half-yearly results announced	August 2014
Q3 Interim Management Statement	October 2014

Company Secretary

Robert Welch
Tel: +44 (0)20 7901 7800
Email: robert.welch@kazakhmys.com

Registered office

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6th Floor, Cardinal Place
100 Victoria Street
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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
Canary Wharf
London E14 5LB
United Kingdom

Auditors

KPMG Audit Plc
15 Canada Square
Canary Wharf
London E14 5GL
United Kingdom

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 and a charge for processing costs which are deducted from the sales price of copper in concentrate 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

CNY

Chinese yuan, basic unit of the renminbi

CO₂

carbon dioxide

Committee or Committees

all or any of the: Audit; Group Health, Safety and Environment; Remuneration; or Nomination 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-I

Ekibastuz GRES-I 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

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 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 and the Ekibastuz GRES-I coal-fired power plant joint venture, 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

KGcal

thousand gigacalories, units of heat energy

km

kilometre

koz

thousand ounces

kt
thousand metric tonnes

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, until its disposal on 28 May 2013, 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

RMB
renminbi, the official currency of the People's Republic of China

\$/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

SO₂
sulphur dioxide

special items
those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 6 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 16 to the financial statements

USc/lb
US cents per pound

Cautionary comment concerning forward-looking statements

This Annual Report and Accounts 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.

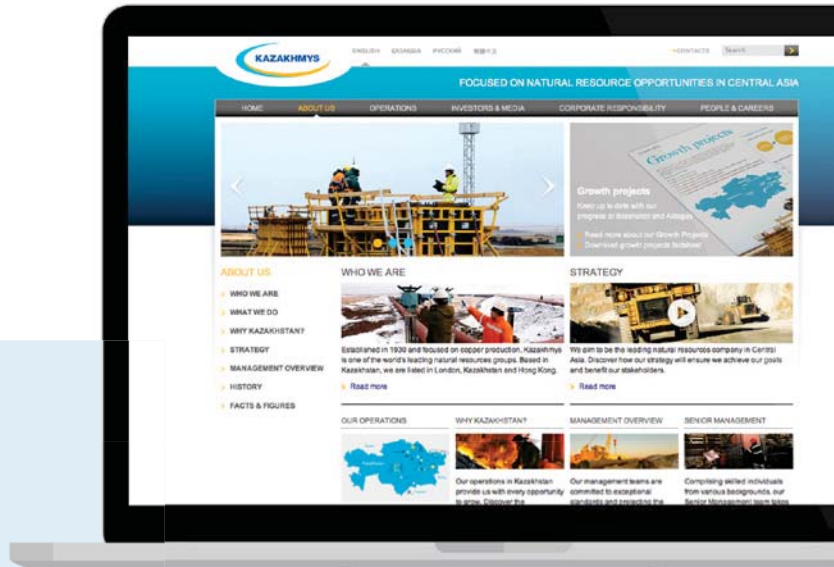
Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing Rules and applicable law, Kazakhmys does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report and Accounts.

For all the latest information

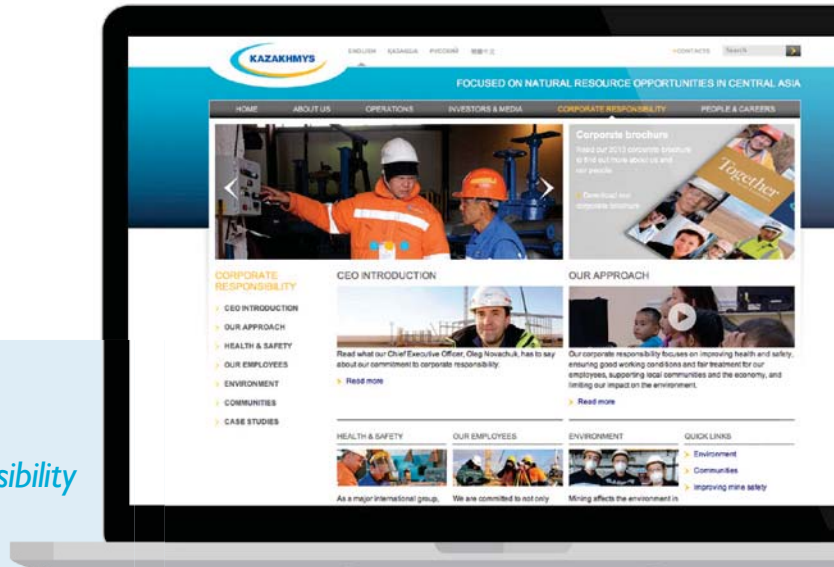
If you would like to find out more about our business, visit our website at www.kazakhmys.com



Please visit our website for the latest information on our operations, performance and growth projects
www.kazakhmys.com



Further information on our commitment to corporate responsibility
www.kazakhmys.com/corporate_responsibility



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