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23 February 2017

## **KAZ MINERALS PLC AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016**

### **FINANCIAL HIGHLIGHTS**

- **Gross EBITDA<sup>1</sup> of \$492 million (2015: \$208 million) driven by Bozshakol and Aktogay**
  - EBITDA of \$351 million (2015: \$202 million), excludes pre-commercial earnings
  - Operating profit up 142% to \$218 million (2015: \$90 million)
- **Gross Revenues<sup>2</sup> increase 43% to \$969 million (2015: \$677 million)**
  - 2016 full year copper sales volumes of 141 kt (2015: 84 kt), offset 12% lower copper price
  - Revenues were \$766 million (2015: \$665 million)
- **Group net cash cost of 59 USc/lb (2015: 109 USc/lb)**
  - Bozshakol gross cash cost of 106 USc/lb and net cash cost of 27 USc/lb, supported by lower costs in start-up period
  - East Region and Bozymchak gross cash cost of 191 USc/lb and net cash cost of 68 USc/lb (2015: 109 USc/lb)
- **Gross liquid funds of \$1,108 million, net debt of \$2,669 million at 31 December 2016**
  - Aktogay project budget reduced by \$200 million to \$2.1 billion
  - \$100 million of final payments at Bozshakol will now fall in 2017
  - New \$300 million Development Bank of Kazakhstan facility and \$50 million increase to PXF obtained in December 2016
  - Gearing metrics significantly improved and set to reduce further

### **OPERATIONAL HIGHLIGHTS**

- **73% growth in copper production to 140 kt**
  - Bozshakol output of 45 kt copper cathode equivalent from 50 kt copper in concentrate in 2016
  - Aktogay output of 18 kt copper cathode from oxide ore, production from sulphide ore commenced in February 2017
  - Optimised Bozymchak mine tripled copper and gold production

### **2017 OUTLOOK**

- **Industry leading production growth and low cost position to continue in 2017**
  - Aktogay to reach commercial production and Bozshakol to reach design capacity in the year
  - Group copper production<sup>3</sup> to increase to 225-260 kt, gold production<sup>3</sup> 135-170 koz
  - Zinc in concentrate expected to be 70-75 kt, silver production<sup>3</sup> 2,750-3,000 koz
  - Bozshakol and Aktogay 2017 gross cash cost guidance of 125-145 USc/lb
  - East Region and Bozymchak 2017 gross cash cost guidance of 230-250 USc/lb, impacted by lower copper volumes

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>2</sup>	969	677
Gross EBITDA <sup>1,8</sup>	492	208
Revenues	766	665
EBITDA (excluding special items) <sup>8</sup>	351	202
Operating profit	218	90
Profit before taxation	220	12
Underlying Profit/(Loss)	180	(10)
EPS – basic and diluted (\$)	0.40	(0.03)
EPS – based on Underlying Profit/(Loss) (\$) <sup>4</sup>	0.40	(0.02)
Free Cash Flow <sup>5</sup>	(60)	(145)
Free Cash Flow before interest	119	2
Gross cash cost (USc/lb) <sup>6</sup>	156	230
Net cash cost (USc/lb) <sup>7</sup>	59	109
Net debt	2,669	2,253

<sup>1</sup> Includes EBITDA from pre-commercial operations.

<sup>2</sup> Includes revenues from pre-commercial operations.

<sup>3</sup> Copper, gold and silver production used for the 2017 guidance is payable metal in concentrate produced plus finished metal production.

<sup>4</sup> Reconciliation of EPS based on Underlying Profit/(Loss) is found in note 8 in the financial information.

<sup>5</sup> Net cash flow from operating activities before capital expenditure and non-current VAT associated with expansionary and new projects, less sustaining capital expenditure.

<sup>6</sup> Cash operating costs, including pre-commercial production costs, excluding purchased cathode, divided by the volume of copper cathode equivalent sales.

<sup>7</sup> Cash operating costs, including pre-commercial production costs, excluding purchased cathode, less by-product Gross Revenues, divided by the volume of copper cathode equivalent sales.

<sup>8</sup> Reconciliation to operating profit provided in note 4(a)(i) in the financial information.

Oleg Novachuk, Chief Executive, said: “The successful launch of our major growth projects has increased copper output by 73% at an industry leading net cash cost of 59 USc/lb. Following the recent commencement of production at the Aktogay sulphide concentrator both Aktogay and Bozshakol are operational. KAZ Minerals is now well positioned to achieve its target of 300 kt of copper production in 2018, delivering significant copper growth with low operating costs into a strengthening market.”

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## NOTES TO EDITORS

KAZ Minerals PLC (“KAZ Minerals” or “the Group”) is a high growth copper company focused on large scale, low cost, open pit mining in Kazakhstan. It operates three mines and three concentrators in the East Region of Kazakhstan, the Bozymchak copper-gold mine in Kyrgyzstan, the Bozshakol open pit copper mine in the Pavlodar region of Kazakhstan and the Aktogay open pit copper mine in the East Region of Kazakhstan. In 2016, total copper cathode equivalent output was 140 kt with by-products of 75 kt of zinc in concentrate, 120 koz of gold bar equivalent and 3,103 koz of silver bar equivalent.

The Group’s major growth projects at Bozshakol and Aktogay are expected to deliver one of the highest growth rates in the industry and transform KAZ Minerals into a company dominated by world class, open pit copper mines.

Bozshakol is a first quartile asset on the global cost curve and will have an annual ore processing capacity of 30 million tonnes when fully ramped up, with a mine life of 40 years at a copper grade of 0.36%. The mine and processing facilities will produce 100 kt of copper cathode equivalent and 120 koz of gold in concentrate per year over the first 10 years of operations.

Aktogay is a large scale, open pit mine similar to Bozshakol, with a mine life of more than 50 years and average copper grades of 0.37% (oxide) and 0.33% (sulphide). Aktogay commenced production of copper cathode from oxide ore in December 2015 and copper in concentrate production from sulphide ore commenced in February 2017. The sulphide concentrator will have an annual ore processing capacity of 25 million tonnes when fully ramped up. Aktogay is competitively positioned on the global cost curve and will produce an average of 90 kt of copper cathode equivalent from sulphide ore and 15 kt of copper cathode from oxide ore per year over the first 10 years of operations.

KAZ Minerals is listed on the London Stock Exchange, the Kazakhstan Stock Exchange and the Hong Kong Stock Exchange and employs around 13,000 people, principally in Kazakhstan.

## FORWARD-LOOKING STATEMENTS

These results include forward-looking statements with respect to the business, strategy and plans of KAZ Minerals and its current goals, assumptions and expectations relating to its future financial condition, performance and results. Although KAZ Minerals believes that the expectations reflected in such forward-looking statements are reasonable and are made by the Directors in good faith, no assurance can be given that such expectations will prove to be correct. By their nature, forward-looking statements involve known and unknown risks, assumptions and uncertainties and other factors which are unpredictable as they relate to events and depend on circumstances that will occur in the future which may cause actual results, performance or achievements of KAZ Minerals to be materially different. These forward-looking statements should not be construed as a profit forecast.

No part of these results constitute, or shall be taken to constitute, an invitation or inducement to invest in KAZ Minerals PLC, or any other entity, and shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Listing Rules and applicable law, KAZ Minerals does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of these results.

## ANNUAL GENERAL MEETING

The 2017 Annual General Meeting will be held at 12.15pm on Thursday 27 April 2017 at Linklaters LLP, One Silk Street, London EC2Y 8HQ, United Kingdom.

The 2016 Annual Report and Accounts and details of the business to be conducted at the Annual General Meeting will be mailed to shareholders and posted on the Company’s website ([www.kazminerals.com](http://www.kazminerals.com)) in late March 2017.

## **CHAIRMAN'S STATEMENT**

### **Reflecting on our progress**

2016 has been an exceptional year for KAZ Minerals in which we completed the construction of our major growth projects, Bozshakol and Aktogay. The project budget for Aktogay was reduced by \$200 million and the Group's copper production rose by 73% accompanied by strong cost management. Bozshakol began production of copper in February 2016 and Aktogay commenced output from sulphide ore in February 2017. With the projects now operational, it is an appropriate point to reflect on the transformation of the Group over the past few years.

After securing long-term finance facilities from the China Development Bank and assembling a world-class project team, the Group began the construction of Bozshakol in 2011 and Aktogay in 2012. In 2013, the sale of non-core assets focused the Group on copper and realised \$2.2 billion of cash proceeds. A restructuring in 2014 disposed of higher cost assets and reduced headcount from around 56,000 to 9,000, with the Group retaining the high grade polymetallic underground mines in the East Region of Kazakhstan, the Bozymchak mine in Kyrgyzstan and two greenfield sites in development.

With the completion of Bozshakol and Aktogay, KAZ Minerals has built and launched two major new copper mines in Kazakhstan, the result of over \$4 billion of investment. These mines are of national and international significance given their large scale and low cost position and will generate economic growth and employment opportunities in Kazakhstan over the next 40 to 50 years. We are proud to be a leading developer of natural resources in Kazakhstan, working in partnership with all of our stakeholders.

### **Delivering value and growth**

KAZ Minerals has entered 2017 with a portfolio of first quartile assets which are expected to produce between 225 and 260 kt of copper this year and we are on track to achieve our medium-term guidance of around 300 kt in 2018, representing a compound annual growth rate of over 50% per year from 2015. Whilst the Group delivered on its strategic objectives in 2016, the market backdrop remained challenging for copper producers. Copper prices were at low levels throughout most of the year, although it was encouraging to see a recovery in November, with the LME price rising by 18% and finishing the year at \$5,501 per tonne. The strengthening of the copper price in the fourth quarter was driven mainly by improved expectations for demand growth in China.

Following the commencement of commissioning at Bozshakol in December 2015, production began in February 2016 and after a relatively smooth ramp up, we were able to declare the project commercial in October 2016. This was a major achievement for the Group and demonstrates our ability to successfully execute projects of this scale.

Our projects division completed the construction of the Aktogay sulphide processing facilities ahead of schedule and the expected budget for the project has been reduced by \$200 million. I am delighted to report that in early 2017 we commenced production from sulphide ore. We look forward to ramping up production in 2017 and delivering the growth and highly competitive operating costs that we believe our projects can deliver.

During 2016, the Group's operational focus has been on achieving our production targets whilst maintaining strict control over costs and capital expenditure. We successfully met our production targets and we have reported first quartile net cash costs at Bozshakol, the East Region and Bozymchak. Sustaining capital expenditure was also managed closely, resulting in expenditure below the guidance we gave for 2016.

### **Health and safety**

The safety of our employees and contractors is of the utmost concern to the Board. It is disappointing to report that, although injury rates have declined slightly, there has been an increase in the number of fatalities in 2016 compared to the prior year. The Health, Safety and Environment Committee, of which I am a member, visited key sites in Kazakhstan in 2016 and it is clear that every effort is being made to improve safety performance through a number of ongoing initiatives. The goal of zero fatalities remains our highest strategic priority. We are confident that the transition to open pit mining and the implementation of enhanced safety procedures at our new operations across the Group will lead to lasting improvements in workplace safety.

### **Governance**

The Company is a UK incorporated, premium listed, FTSE stock with a majority free float and is subject to the full provisions of the UK Takeover Code. There were no changes to the Board in 2016. KAZ Minerals continues to comply fully with the requirements of the UK Corporate Governance Code, with more than half of the Board excluding the Chairman comprising independent non-executive Directors. We have commenced a thorough review of Board succession planning due to the current stage of the Group's development, with the Aktogay sulphide plant entering commissioning in 2016 bringing to an end the construction phase of the major growth projects.

## Managing the balance sheet

The ramp up of Bozshakol to commercial production and the commencement of output from sulphide ore at Aktogay has greatly reduced the Group's project execution risk and the growth from the major projects is improving our debt metrics. Our near-term financing priority is to continue de-gearing to more normalised levels.

Since drawing the Bozshakol and Aktogay CDB facilities, and the PXF facility that was put in place at the time of the 2014 restructuring, the Group has made debt repayments of over \$1.1 billion. We have now passed the point of peak gearing, reporting Gross EBITDA of \$492 million in 2016 and net debt of \$2,669 million at the year end. We have significantly reduced the ratio of net debt to Gross EBITDA and we expect to continue this trajectory in 2017.

KAZ Minerals' liquidity position during the ramp up period of the two projects has been supported by a new \$300 million facility with the Development Bank of Kazakhstan, obtained in December 2016. It is the Group's intention to refinance its PXF facility in the first half of 2017, in advance of which we obtained and drew an additional commitment of \$50 million in December 2016.

## Dividends

The Group's dividend policy, established at the time of Listing, is for the Board to consider the cash generation and financing requirements of the business and then to recommend a suitable dividend. This maintains flexibility which is appropriate given the underlying cyclicity of a commodity business. The Group has a strong record of payments to shareholders, with returns of \$2,095 million in ordinary dividends, buy-backs and special dividends since its Listing in 2005.

Whilst the outlook for the Group's financial position is positive, given the ramp up of Bozshakol and Aktogay and with net debt to EBITDA expected to fall rapidly, the Group has invested heavily in the projects and it is our near-term priority to continue to reduce our gearing metrics. Accordingly, the Board does not recommend a dividend in respect of the 2016 financial year, although it is the Board's intention that the Group resumes dividend payments in the future.

## Outlook

The progress made in bringing the major growth projects into production positioned KAZ Minerals for a period of strong organic growth, which we are now delivering. The recent recovery in copper prices is welcome and the combination of increasing output, higher prices for our products and low operating costs should generate significant value for shareholders. I look forward to reporting on our continued success and further progress towards achieving our goals in 2017.

## CHIEF EXECUTIVE'S REVIEW

I am pleased to report another year of successful delivery against our operational targets in 2016 as we ramped up copper production from our new low cost mines. The Group's first major growth project, Bozshakol, commenced copper output in late February and within eight months we declared the project commercial. Mill throughput at Bozshakol averaged over 75% of design capacity in the fourth quarter. The ramp up of Bozshakol was the key driver of the 73% increase in copper output, to 140 kt in 2016.

The second major growth project, Aktogay, commenced commissioning of its main sulphide concentrator earlier than anticipated in December 2016 and the capital budget for the project was reduced by a total of \$200 million during the year. Production of copper from sulphide ore at Aktogay began in February 2017. The East Region and Bozymchak mines also met or exceeded production guidance across all metals in 2016, at a net cash cost of 68 USc/lb of copper.

### Health and safety

I am disappointed to report that five fatalities occurred at our East Region operations in 2016 involving three contractors and two employees of KAZ Minerals. A contractor fatality also occurred during the construction of the sulphide concentrator at Aktogay.

The number of fatalities in 2016 has increased compared to the prior year, with three occurring as a result of a single incident. We consider all fatalities to be avoidable and we remain committed to achieving our goal of zero fatalities. The rate of fatal incidents at our operations is considerably lower today than it was five years ago and the frequency of injuries has also reduced.

We are continuing our efforts to improve health and safety performance, with initiatives in 2016 including the implementation of enhanced safety management standards and a detailed review of occupational health hazards in the East Region. We are trialling an innovative pay scheme at Aktogay aimed at incentivising safe behaviours and promoting engagement on safety issues between supervisors and their teams.

At Bozshakol, Aktogay and Bozymchak a total of over 10 million operational man-hours have been completed in the period from the commencement of copper production through to the end of 2016. During this time there have been no fatalities in the production teams at these facilities. This reflects the culture and procedures we are seeking to establish in our new assets, as well as the inherently safer nature of the work undertaken compared to underground mining. The health and safety risk profile of the Group is expected to improve as we continue our transition to becoming a business dominated by large scale, open pit operations.

### Review of operations

By the end of the year the Group's major growth projects were both operational, with Bozshakol well progressed in its ramp up and testing of the Aktogay sulphide concentrator underway.

After commencing production in February, the Bozshakol plant successfully ramped up during the year and was declared commercial in October 2016, having operated at over 60% of design capacity for three consecutive months. In September, we began commissioning of the separate clay plant which will ramp up during 2017.

Bozshakol contributed 45 kt of copper cathode equivalent in 2016, in line with guidance. The contribution from Bozshakol was the key driver behind the 73% increase in Group copper cathode equivalent production, from 81 kt in 2015 to 140 kt in 2016.

At Aktogay we completed construction of the main sulphide concentrator and commenced commissioning works in December 2016, followed by the production of copper concentrate from sulphide ore in February 2017. The oxide facilities at Aktogay completed their first full year of operations and produced 18 kt of copper cathode at a cash cost of 114 USc/lb. The capital budget for Aktogay was reduced by a total of \$200 million in 2016 to \$2,100 million, due to a combination of the early delivery of the project, partial release of contingency, efficiency gains from lessons learnt during the construction of Bozshakol and a local supplier strategy, which delivered lower expenditure in dollar terms following the devaluation of the tenge in the second half of 2015.

Our operations in the East Region and Bozymchak achieved or exceeded production guidance across all metals at a net cash cost of 68 USc/lb, benefiting from higher by-product prices compared to the prior year, the weaker tenge and cost saving measures implemented by management.

### Production outlook

With the two new mines in ramp up accounting for the majority of the Group's output in 2017 it is prudent to give a wide range for copper production guidance as we enter the new financial year.

In 2017, work on the flotation process at Bozshakol will be conducted to optimise recoveries and raise output to design levels. The mine is expected to achieve its full capacity in the second half of the year and to produce 95-110 kt of payable copper in concentrate in 2017.



The ramp up of the sulphide concentrator at Aktogay should benefit from the experience gained at Bozshakol and production from Aktogay sulphide during 2017 is therefore expected to be 45-65 kt of payable copper in concentrate. We aim to achieve commercial levels of production at the Aktogay sulphide plant in the second half of 2017. The oxide facilities at Aktogay are now fully ramped up and are expected to deliver increased output of around 20 kt of copper cathode in 2017.

The East Region and Bozymchak are guided to contribute around 65 kt of copper cathode to Group production, as the Yubileyno-Snegirikhinsky mine ceased operations in December 2016 and the largest mine in the East Region, Orlovsky, will operate on a six-day week to accommodate maintenance works throughout 2017. Group copper production guidance<sup>1</sup> for 2017 is therefore set at 225-260 kt.

Gold production is expected to be 85-110 koz of payable gold in concentrate at Bozshakol and together with 50-60 koz of gold bar from the East Region and Bozymchak, Group gold production<sup>1</sup> guidance for 2017 is set at 135-170 koz. Silver production<sup>1</sup> is expected to be between 2,750-3,000 koz, with approximately 500 koz of payable silver in concentrate from Bozshakol and 2,250-2,500 koz of silver bar from the East Region and Bozymchak. Zinc in concentrate production guidance for the East Region is set at 70-75 kt as the full year effect of the six-day week at Orlovsky will result in lower output compared to 2016.

## Financial performance

In 2016, the Group generated revenues of \$766 million, excluding sales from Bozshakol and the Aktogay oxide project during the pre-commercial stages of their ramp up, representing an increase of 15% compared to 2015. Gross Revenue in 2016 was \$969 million, including \$203 million of pre-commercial sales from the new projects, an increase of 43% compared to 2015. The increase in revenues was driven by higher sales volumes of copper and gold and increased prices for zinc, gold and silver, offset by a 12% reduction in the average market price of copper and a 20% decrease in zinc output in 2016 compared to the prior year.

In response to low commodity prices the Group sought additional efficiencies and for the third consecutive year we have reported lower operating costs, with a first quartile Group net cash cost in 2016 of 59 US\$/lb. Costs have reduced as we transition to large scale, open pit mining and due to the devaluation of the tenge which occurred in the second half of 2015. Cost and efficiency measures previously implemented in the East Region have had a full year effect in 2016 and net cash costs benefited from increased prices for our by-products of zinc, gold and silver during the year. Our portfolio of assets has positioned KAZ Minerals amongst the lowest cost pure-play copper producers globally.

Our major growth projects delivered a strong cost performance in 2016, with Aktogay oxide recording a gross cash cost of 114 US\$/lb and Bozshakol a temporarily low 106 US\$/lb, significantly below guidance of 140-160 US\$/lb. Assisted by strong gold bar equivalent output of 60 koz and an average gold price of \$1,251/oz in 2016, the net cash cost of copper at Bozshakol was 27 US\$/lb. Bozshakol has benefited from high ore grades, low maintenance costs on new equipment and a number of other supporting factors in its first ramp up year. Low operating costs enabled the Group to generate EBITDA (excluding special items) of \$351 million and Gross EBITDA (including pre-commercial EBITDA from Bozshakol and Aktogay oxide) of \$492 million in 2016.

We have sought to reduce or defer sustaining and expansionary capital expenditure where possible. Sustaining capital expenditure in the East Region and Bozymchak in 2016 amounted to \$50 million against guidance at the start of the year of \$80-90 million. Expansionary capital expenditure across all assets in 2016 totalled \$273 million against initial guidance of \$575 million, with over half of the reduction resulting from previously announced revisions to the capital budget and phasing of payments for the construction of the Aktogay project.

## Financial guidance

Expansionary capital expenditure in 2017 is expected to be approximately \$415 million consisting of \$265 million for Aktogay, \$100 million of final payments at Bozshakol, \$30 million for works on the Artemyevsky II mine extension and \$20 million on other projects including further studies at Koksay and on a potential new smelter in Kazakhstan. For the smelter project we are assessing non-recourse financing options and the potential for partnering.

Sustaining capital expenditure at the East Region and Bozymchak is expected to be approximately \$70 million whilst Bozshakol will require in the region of \$30 million in 2017. Aktogay is expected to require \$20 million of sustaining capital expenditure.

The devaluation of the tenge in 2015 has resulted in inflationary pressures on costs in the second half of 2016 and these are expected to continue in 2017. At Bozshakol, the factors driving low operating costs in the first year of ramp up are not expected to continue in the coming year and gross cash costs are expected to rise to 125-145 US\$/lb in 2017. At Aktogay, the combined oxide and sulphide facilities are expected to deliver a gross cash cost of 125-145

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<sup>1</sup> Copper, gold and silver production used for the 2017 guidance is payable metal in concentrate produced plus finished metal production.

USc/lb. The East Region and Bozymchak will experience higher unit costs as a result of lower production levels, with gross cash costs estimated at between 230 and 250 USc/lb in 2017.

## **Outlook**

In 2016 we have established KAZ Minerals as a high growth and low cost copper producer. The key operational priorities in 2017 are to achieve full design capacity at Bozshakol and for the Aktogay sulphide plant to reach commercial levels of production in the second half of the year. Looking forward, our production growth is set to continue as we complete the ramp up of Bozshakol and Aktogay and progress towards our medium-term copper production target of 300 kt in 2018.



## OPERATING REVIEW

The Group's operations in 2016 included four mines and three concentrators in the East Region of Kazakhstan, the Bozymchak copper-gold mine in Kyrgyzstan, the Bozshakol open pit copper mine in the Pavlodar region of Kazakhstan and the Aktogay open pit copper mine in the eastern region of Kazakhstan.

### Group finished products

kt (unless otherwise stated)	2016	2015
Copper cathode equivalent production	<b>140.3</b>	81.1
Bozshakol	<b>44.8</b>	–
Aktogay	<b>18.1</b>	0.4
East Region and Bozymchak	<b>77.4</b>	80.7
Zinc in concentrate	<b>75.4</b>	94.3
Gold bar equivalent (koz)	<b>119.7</b>	34.6
Silver bar equivalent (koz)	<b>3,103</b>	3,135

Group copper cathode equivalent production in 2016 of 140.3 kt was in line with market guidance and a 73% increase from the prior year as the new projects Bozshakol and Aktogay contributed 62.9 kt of production. Bozshakol commenced production in February 2016 contributing 44.8 kt of copper cathode equivalent as the sulphide operations ramped up and were declared commercial on 27 October 2016. Aktogay oxide operations ramped up successfully during 2016 with copper cathode production of 18.1 kt. The East Region and Bozymchak operations produced 77.4 kt of copper cathode equivalent for the year, above guidance but below the prior year as higher output from the optimised Bozymchak mine only partially offset lower volumes from the East Region. By-product output was ahead of guidance for all metals with the large increase in gold output due to the commencement of production at Bozshakol and increased output from Bozymchak.

### Group financial summary

\$ million (unless otherwise stated)	2016	2015
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	<b>141</b>	84
Gold bar equivalent (koz)	<b>120</b>	35
Silver bar equivalent (koz)	<b>3,026</b>	3,048
Zinc in concentrate (kt)	<b>75</b>	96
Gross Revenues <sup>1</sup>	<b>969</b>	677
Gross EBITDA (excluding special items) <sup>1</sup>	<b>492</b>	208
EBITDA (excluding special items)	<b>351</b>	202
Gross cash costs (USc/lb) <sup>1</sup>	<b>156</b>	230
Net cash costs (USc/lb) <sup>1</sup>	<b>59</b>	109

<sup>1</sup> Includes all operations for the full year, including during the period of pre-commercial production.

Gross Revenues increased by 43% to \$969 million from the prior year, driven by the volume growth from Bozshakol and Aktogay. This more than offset the 12% reduction in the average LME copper price. Gross EBITDA increased by 137% benefitting from the higher Gross Revenues as well as a reduction in cash costs at East Region and low cash costs at Bozshakol during the first year of operations. The Group recorded a gross and net cash cost of 156 USc/lb and 59 USc/lb for the year, placing the Group's operations competitively amongst pure-play copper producers.

## BOZSHAKOL

The Bozshakol mine and on-site processing facilities in the north of Kazakhstan is one of the Group's two major growth projects. Bozshakol has an annual ore processing capacity of 30 million tonnes and a mine life of 40 years at a copper grade of 0.36%.

2016 was a landmark year for the project as the first production and sale of copper in concentrate was achieved from sulphide operations in the first quarter. The ramp up of the sulphide concentrator progressed well during the year, averaging over 75% of design throughput in the fourth quarter of 2016. Full capacity is expected to be achieved during 2017. The separate clay plant, which has a processing capacity of 5 million tonnes, was completed during the year and commissioning works began on the 29 September 2016. Construction activities at Bozshakol are now largely complete with management focused on raising output to design levels.

## Production summary

### Mining

kt (unless otherwise stated)	2016	2015
Ore output	<b>28,272</b>	7,099
Copper grade (%)	<b>0.58</b>	0.69
Sulphide ore grade	<b>0.57</b>	0.52
Clay ore grade	<b>0.60</b>	0.70
Copper in ore mined	<b>164.6</b>	48.7
Gold grade (g/t)	<b>0.30</b>	0.31
Gold in ore mined (koz)	<b>270.1</b>	70.0
Silver grade (g/t)	<b>1.5</b>	2.1
Silver in ore mined (koz)	<b>1,361</b>	469

Mining at Bozshakol began in the second half of 2015 and increased significantly during 2016 to support the sulphide concentrator. By the end of 2016, the pace of mining activity approached the level required to supply the ore processing capacity of 30 million tonnes per annum. The 28,272 kt of ore extracted in 2016 included 13,386 kt of sulphide ore and 14,886 kt of clay ore. The clay ore has been stockpiled for processing at the now commissioned clay plant. At 31 December 2016, 21,266 kt of clay material has been stockpiled with an average copper grade of 0.63%.

The copper grade averaged 0.58% from sulphide and clay ore during the year and was above the life of mine grade as operations in the initial years are focused on the higher copper grade zones of the deposit. The deposit also contains gold, silver and molybdenum. The gold grade in 2016 averaged 0.30 g/t and is expected to reduce somewhat in 2017 although, like copper, the grade is above the life of mine average during the initial years of operations.

### Processing

kt (unless otherwise stated)	2016	2015
Copper in concentrate	<b>50.3</b>	–
Copper cathode equivalent <sup>1</sup>	<b>44.8</b>	–
Gold in concentrate (koz)	<b>68.0</b>	–
Gold bar equivalent (koz) <sup>1</sup>	<b>59.6</b>	–
Silver in concentrate (koz)	<b>338.0</b>	–
Silver bar equivalent (koz) <sup>1</sup>	<b>285.8</b>	–

<sup>1</sup> Includes finished metal equivalent of concentrate sold in the period.

Bozshakol began production of copper in concentrate from sulphide operations in February 2016. Ore throughput has increased during the year with no major issues encountered during commissioning. Following three consecutive months of operations at or above 60% of design ore throughput levels, sulphide operations were declared commercial on 27 October 2016. Ore throughput in the fourth quarter averaged above 75% of design, with higher levels achieved in October followed by reduced throughput in November due to shutdowns for planned commissioning activities. The focus for 2017 is to increase ore throughput to design capacity and maximise metal recoveries.

Bozshakol recorded copper cathode equivalent of 44.8 kt and gold bar equivalent of 59.6 koz for the year, calculated as the payable metal equivalent of the concentrate sold. In addition, the silver in concentrate achieved in flotation was at a commercially payable level from the start of operations, resulting in silver bar equivalent production of 285.8 koz. Copper cathode equivalent production was in line with market guidance of 45-55 kt and production of gold and silver bar equivalent was at the top end of market guidance of 50-60 koz and 250 koz respectively.

Commissioning works at the clay plant began on 29 September 2016. Only a limited amount of copper in concentrate production was produced in 2016 with the first saleable material expected in the first quarter of 2017.

Copper production (payable metal in concentrate produced) is expected to be between 95 kt and 110 kt in 2017 as output ramps up. By-products from gold production and silver production of between 85-110 koz and around 500 koz respectively (payable metal in concentrate production) are expected in 2017. Molybdenum production at Bozshakol has not yet commenced and the commissioning of the circuit will depend on progress in stabilising copper recoveries and the market price of molybdenum.

## Financial summary

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>1</sup>	<b>280</b>	–
Copper	<b>202</b>	–
Gold	<b>73</b>	–
Silver	<b>5</b>	–
Revenues	<b>93</b>	–
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	<b>45</b>	–
Gold bar equivalent (koz)	<b>60</b>	–
Silver bar equivalent granule (koz)	<b>286</b>	–
Realised price of copper sales (\$/t) <sup>1,2</sup>	<b>4,519</b>	n/a
Gross EBITDA (excluding special items) <sup>1</sup>	<b>204</b>	(10)
Capitalised EBITDA	<b>(137)</b>	–
EBITDA (excluding special items)	<b>67</b>	(10)
Gross cash costs (USc/lb) <sup>1</sup>	<b>106</b>	n/a
Net cash costs (USc/lb) <sup>1</sup>	<b>27</b>	n/a
Expansionary capital expenditure (direct project)	<b>168</b>	527
Expansionary capital expenditure (pre-commercial)	<b>(64)</b>	–

<sup>1</sup> Includes sulphide operations for the full year 2016 including the pre-commercial production period to 27 October 2016.

<sup>2</sup> Realised price of payable metal in copper concentrate, after deduction for TC/RC.

Prior to the achievement of commercial production on 27 October 2016 all revenues and operating costs were capitalised and not recognised in the income statement. To report the performance of Bozshakol for the full year 2016, Gross Revenues and Gross EBITDA have been shown which include the pre-commercial production period. Gross Revenues of \$280 million were recorded during 2016, of which \$187 million was prior to commercial production. The first shipment of copper concentrate was dispatched to China in March, with total shipments of 44.8 kt of copper cathode equivalent in the year, after adjustment for the copper payable. Gross copper revenues in 2016 were \$202 million at an average realised price of \$4,519/t of copper in concentrate, which is determined by reference to the LME price minus a deduction for TC/RCs. By-product revenues from the sale of concentrate were \$73 million and \$5 million from the sale of 59.6 koz and 285.8 koz of gold and silver respectively.

Revenues recognised in the income statement were \$93 million, generated from the sale of 13.7 kt of copper cathode equivalent and 16.7 koz and 98.0 koz of gold and silver respectively, after the achievement of commercial production on 27 October 2016. As the final price for concentrate sales is typically set by reference to the LME price two months after shipment, the increase in copper price in the final two months of the year above the copper forward curve as at 27 October 2016 resulted in price adjustments of \$9 million being recognised in the period following commercial production relating to pre-commercial sales.

Bozshakol generated a Gross EBITDA of \$204 million at a gross cash cost of 106 USc/lb. The gross cash cost is expressed on a unit of cathode sold basis, after adjustment for the copper payable and TC/RC terms. The cash cost in 2016 has benefited from a number of factors, including limited maintenance expenditure in the first year of operations due to the new equipment, the processing of higher grade, softer material with short haulage routes and a sustained weaker tenge with limited levels of tariff inflation. After deducting the by-product credits from gold and silver sales, the net cash cost of Bozshakol was 27 cents in 2016. The gross cash cost of copper sold in 2017 is expected to be between 125-145 USc/lb, which places Bozshakol competitively on the global cost curve.

The reported EBITDA of \$67 million relates to the final two months of the year. As noted above, EBITDA for the period after 27 October 2016 benefited from an increase in the forward copper price in November and December 2016.

In 2016 the direct capital expenditure on Bozshakol, excluding capitalised interest on debt facilities, was \$168 million. The majority of the expenditure related to the completion of the clay plant. Expenditure was also incurred on the completion and commissioning of the sulphide operations, including the pebble crusher, high pressure grinding roller, bagging plant and the molybdenum circuit. Retention payments expected to be made in 2016 have been carried forward into 2017. Direct project expenditure includes \$52 million in respect of the stockpiling of clay material to provide access to sulphide material. The direct capital expenditure was partially offset by an inflow of \$64 million from operations during the period prior to commercial production and includes capitalised revenues, costs and working capital.

At the end of 2016, \$2,050 million had been invested in Bozshakol. The total cost of the project is expected to be in the region of \$2,150 million. In 2017, expenditure in the region of \$100 million is expected to be incurred for the release of contractual retention payments, commissioning works at the clay plant, the acquisition of further spares and a subsoil payment in respect of the reserves. In addition, sustaining capital of around \$30 million will be required in 2017, mainly in relation to the maintenance and overhaul of mining equipment.

## AKTOGAY

The Aktogay project is a large scale, open pit development similar to Bozshakol, with a mine life of more than 50 years and average copper grades of 0.37% (oxide) and 0.33% (sulphide). Aktogay commenced production of copper cathode from oxide ore in December 2015, and the production of copper in concentrate from sulphide ore is expected during the first quarter of 2017. The sulphide concentrator will have an annual ore processing capacity of 25 million tonnes when fully ramped up.

Significant progress was made at Aktogay during 2016. The SX/EW plant was successfully ramped up with production levels exceeding expectations. Following a period of steady output, the oxide operations achieved commercial levels of production from 1 July 2016. Construction of the sulphide concentrator was completed and testing and commissioning activities commenced in December 2016. During 2016 the Aktogay project budget was reduced by \$200 million to \$2,100 million.

### Production summary

kt (unless otherwise stated)	2016	2015
Ore output	16,086	3,003
Copper grade (%)	0.41	0.37
Copper in ore mined	65.7	11.0
Copper cathode production	18.1	0.4

Mining operations at Aktogay commenced in the second quarter of 2015 and have ramped up significantly during 2016 to supply additional oxide ore to the heap leach cells and prepare for sulphide extraction. The copper grade of 0.41% was above the life of mine copper grade as operations in the initial years are focused on the higher copper grade zones of the deposit. Areas of sulphide ore have been exposed in readiness to supply the sulphide concentrator ramp up, but only limited volumes of sulphide ore were mined during the year.

The SX/EW facility produced its first copper cathode during December 2015 and has ramped up successfully, achieving production levels above the design capacity of the plant during 2016. The plant achieved output of 6.1 kt during the final quarter, slightly below quarter three output of 6.6 kt, as production reduced due to lower winter temperatures, as expected.

The Aktogay sulphide concentrator commenced commissioning on 6 December 2016 and is currently undergoing testing. The first production of saleable copper concentrate is expected in the first quarter of 2017.

Copper production of between 65 kt and 85 kt is expected from Aktogay during 2017, including around 20 kt of cathode from oxide operations and 45 kt and 65 kt payable metal in concentrate from the sulphide concentrator. Commissioning of the molybdenum circuit at Aktogay has not yet commenced and will depend on the progress in ramping up copper production and the market price of molybdenum.

### Financial summary

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>1</sup>	68	–
Revenues	52	–
Copper cathode sales (kt) <sup>1</sup>	14	–
Realised price of copper sales (\$/t) <sup>1</sup>	4,889	n/a
Gross EBITDA (excluding special items) <sup>1</sup>	33	(3)
Capitalised EBITDA	(4)	–
EBITDA (excluding special items)	29	(3)
Gross cash costs (USc/lb) <sup>1</sup>	114	n/a
Expansionary capital expenditure (direct project)	144	470
Expansionary capital expenditure (pre-commercial)	12	–

<sup>1</sup> Includes oxide operations for the full year 2016 including the pre-commercial production period to 1 July 2016.

The oxide operations achieved commercial levels of production from 1 July 2016. During the first half of 2016 all revenues and operating costs were capitalised.

Following the first production of copper cathode in December 2015, the first sale of material was recorded in January 2016. Gross Revenues of \$68 million were recorded for the year, from sales of 13.9 kt of copper cathode at an average realised price of \$4,889/t. At the end of the year there was a build-up of copper cathode inventory as material was directed to the European market to benefit from favourable sales terms. This material in transit has not been recognised as revenue during 2016, however cash was received in advance for this material.

The gross cash cost from the oxide plant was 114 USc/lb, in line with market guidance of 110-130 USc/lb. This reduced from 156 USc/lb recorded in the first half of the year due to the successful ramp up of production, increased efficiencies and the automation of cathode stripping. The gross cash cost for Aktogay in 2017 is expected to be 125-145 USc/lb, including pre-commercial production from sulphide operations and oxide output.

Gross EBITDA for the full year was \$33 million, the majority of which was generated in the second half of the year during commercial production. EBITDA from commercial production of \$29 million was generated from copper cathode sales of 10.5 kt and benefited from a higher copper price in the second half of the year and the lower unit costs.

In 2016 project capital expenditure, excluding capitalised interest on debt facilities, was \$144 million. This included the completion and commissioning of the oxide SX/EW plant as well as the substantial completion and commissioning of the sulphide concentrator, non-process buildings and the tailings storage facility. The capital expenditure does not reflect the progress on the project as \$300 million of payments to the principal construction contractor have been deferred to 2018. At 31 December 2016, the amount payable under this agreement was \$284 million and is included within other non-current liabilities. In addition to direct project costs, expansionary capital expenditure includes capitalised pre-commercial cash flows and working capital of \$12 million.

The Aktogay project budget was reviewed during the year and reduced by a total of \$200 million to \$2,100 million. The savings were achieved through faster than anticipated progress in construction, from a sustained weaker tenge and the benefit of a local supplier strategy and a partial release of contingency. The total invested in Aktogay from the project budget to date was approximately \$1,465 million. The timing of the remaining capital investment has been updated, with certain payments previously expected in late 2016 now anticipated in early 2017 and \$70 million relating to the expansion of oxide ore heap leach cells deferred to 2018. The resulting capital expenditure profile for the project is expected to be approximately \$265 million in 2017 and \$370 million in 2018. The expenditure in 2017 will include final payments for construction, commissioning works, first fill items, critical spares and the acquisition of rolling stock. In addition, sustaining capital of around \$20 million will be required in 2017, mainly in relation to the maintenance and overhaul of mining equipment.

## EAST REGION AND BOZYMCHAK

### Production summary

#### Copper

kt (unless otherwise stated)	2016	2015
Ore output	<b>4,664</b>	4,435
Copper grade (%)	<b>2.01</b>	2.27
Copper in ore mined	<b>93.9</b>	100.6
Copper in concentrate	<b>81.0</b>	89.4
Orlovsky concentrator	<b>41.7</b>	47.2
Nikolayevsky concentrator	<b>22.5</b>	29.0
Belousovsky concentrator	<b>8.6</b>	10.1
Bozymchak concentrator	<b>8.2</b>	3.1
Copper cathode equivalent production <sup>1</sup>	<b>77.4</b>	80.7

<sup>1</sup> Includes finished metals produced and the finished metal equivalent of concentrate sold in the period.

Ore output from the East Region and Bozymchak totalled 4,664 kt in 2016, which was 229 kt or 5% above the volume extracted in the prior year. This reflected increased volumes from Bozymchak, which following optimisation works completed during the fourth quarter of 2015, operated at design capacity throughout 2016. This more than offset lower ore volumes from the East Region's Orlovsky and Yubileyno-Snegirikhinsky mines. The Orlovsky mine implemented a six-day working week from the start of the second half of the year to allow maintenance to be carried out on a ventilation shaft, which will continue for approximately two years. Ore output at Yubileyno-Snegirikhinsky reduced as the mine reached the end of its operational life in December 2016 with all mineral reserves fully exploited after 15 years. Ore stockpiled at the site will be processed in early 2017. 188 employees have either been redeployed



within the Group or accepted redundancy, whilst 40 employees will remain on site to supervise the process of decommissioning and rehabilitation.

As expected, the copper grade was below the prior year at 2.01%. Average grades were impacted by higher volumes and lower grades from the Bozymchak mine, as well as lower grades across most of the East Region mines, including Artemyevsky where mining occurred in a transitional area between two ore bodies. The 11% decrease in copper grade more than offset the increase in ore output and resulted in a 7% reduction in copper in ore mined.

Copper in concentrate output of 81.0 kt was 8.4 kt or 9% below the prior year as lower production from all East Region concentrators was partly offset by higher output from the optimised Bozymchak mine. East Region copper in concentrate production reduced by 16%, reflecting the expected lower output from Orlovsky as well as road repairs which restricted ore deliveries from the Yubileyno-Snegirikhinsky mine to the Nikolayevsky concentrator. The average recovery rate was in line with the prior year, despite the lower grade material processed.

The copper concentrate produced by the East Region and Bozymchak is processed into cathode on a tolling basis at the Balkhash smelter. Copper cathode equivalent production decreased by 3.3 kt to 77.4 kt, mainly due to the lower copper in concentrate output. Maintenance work at the Balkhash smelter in the final two months of the year resulted in some work in progress being carried forward into 2017. Full year copper cathode equivalent production of 77.4 kt includes 0.9 kt recognised from the sale of copper concentrate produced at Bozymchak in 2015 to a third-party processor and 1.7 kt of material sold as copper concentrate from the East Region. Limited volumes of East Region concentrate may continue to be sold to China in 2017.

Copper production for the East Region and Bozymchak is anticipated to reduce to around 65 kt in 2017 as output declines following the closure of Yubileyno-Snegirikhinsky and the full year impact of the six-day rota and lower grades at Orlovsky.

## By products

koz (unless otherwise stated)	2016	2015
Zinc grade (%)	<b>2.98</b>	3.23
Zinc in ore mined (kt)	<b>111.3</b>	128.9
Zinc in concentrate (kt)	<b>75.4</b>	94.3
Gold grade (g/t)	<b>0.74</b>	0.75
Gold in ore mined	<b>111.2</b>	106.6
Gold in concentrate	<b>67.6</b>	42.1
Gold bar equivalent <sup>1</sup>	<b>60.1</b>	34.6
Silver grade (g/t)	<b>37.8</b>	43.3
Silver in ore mined	<b>5,660</b>	6,168
Silver in concentrate	<b>3,224</b>	3,229
Silver bar equivalent <sup>1</sup>	<b>2,817</b>	3,135

<sup>1</sup> Includes finished metals produced and the finished metal equivalent of concentrate sold in the period.

Zinc in concentrate production of 75.4 kt slightly exceeded the external guidance for 2016 but compared to the prior year fell by 20%. This reflected a 17.6 kt or 14% decrease in zinc in ore mined due to a reduction in by-product grades and lower ore output at Orlovsky, the largest zinc producing mine and where operations have been reduced to a six-day week. The reduction in grade is in line with expectations and primarily a result of lower zinc grades at Artemyevsky where mining is moving through a transitional zone between two ore bodies. Concentrate production was also restricted by the temporary disruption to ore transport from the Yubileyno-Snegirikhinsky mine.

Higher production at Bozymchak resulted in a 74% increase in gold bar equivalent production, more than offsetting the East Region's lower ore volumes and grades. Bozymchak operated at 100% of design capacity throughout the year and contributed gold bar equivalent of 38.3 koz, a 206% increase from 2015. Lower output from East Region was primarily the result of lower volumes and grades at Orlovsky.

Silver in concentrate production was in line with the prior year as output from Bozymchak offset a lower contribution from the East Region. East Region silver in concentrate production was affected by the lower volumes and grades at Orlovsky, as well as lower grades at Irtyshsky. Silver grades were expected to fall in the East Region mines but were stronger than expected at Artemyevsky and Irtyshsky which also assisted concentrator recovery rates. Silver bar production of 2,817 koz was 10% below the prior year, but exceeded market guidance of 2,250-2,500 koz.

East Region and Bozymchak are expected to produce 70 kt to 75 kt of zinc in concentrate, 50 koz to 60 koz of gold (payable metal in concentrate) and 2,250 koz to 2,500 koz of silver (payable metal in concentrate) in 2017.



## Financial Summary

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>1</sup>	<b>621</b>	677
Copper	<b>399</b>	465
Zinc	<b>95</b>	102
Silver	<b>46</b>	46
Gold	<b>75</b>	41
Other	<b>6</b>	23
Revenues	<b>621</b>	665
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	<b>82</b>	84
Zinc in concentrate (kt)	<b>75</b>	96
Silver bar equivalent (koz)	<b>2,740</b>	3,048
Gold bar equivalent (koz)	<b>60</b>	35
Realised price of copper sales (\$/t) <sup>1</sup>	<b>4,859</b>	5,524
Gross EBITDA (excluding special items) <sup>1</sup>	<b>279</b>	246
Capitalised EBITDA	<b>–</b>	(6)
EBITDA (excluding special items)	<b>279</b>	240
Gross cash costs (US\$/lb) <sup>1</sup>	<b>191</b>	230
Net cash costs (US\$/lb) <sup>1</sup>	<b>68</b>	109
Capital expenditure	<b>62</b>	74
Sustaining	<b>50</b>	67
Expansionary	<b>12</b>	7

<sup>1</sup> Includes Bozymchak operations for the full year 2015 including the pre-commercial production period to 1 July 2015.

### Gross Revenues

Gross Revenues in the prior year include sale volumes from Bozymchak during the period of pre-commercial production prior to 1 July 2015 which comprise \$6 million from the sale of copper cathode and \$6 million from the sale of gold bar. Gross Revenues generated by the East Region and Bozymchak decreased by 8% to \$621 million in 2016, reflecting lower pricing for copper and a decrease in zinc sales volumes, which was partially offset by increased gold volumes from Bozymchak.

Copper revenues fell by 14% to \$399 million as a result of a lower realised copper price. The average LME copper price decreased by 12% to \$4,860/t versus \$5,495/t during 2015. Copper cathode is sold to customers in China or Europe based on the LME price plus a premium to reflect the terms of trade. Copper cathode equivalent sales volumes in 2016 include 2.6 kt of payable metal from the sale of copper in concentrate, which is sold based on the LME price minus a deduction for TC/RCS. Copper sales volumes in 2015 includes 5 kt of cathode which was purchased externally to compensate for variances in monthly cathode output, mainly because of maintenance at the Balkhash smelter. The sale of the externally purchased cathode contributed revenue of \$28 million at a small margin. Excluding externally purchased material, the prior year copper cathode equivalent volumes were 79 kt.

Gross Revenues from by-products increased by \$10 million or 5% due largely to the increase in gold production from the optimised Bozymchak operation. Gold sales volumes more than doubled and benefited from an 8% increase in the average market LBMA price for gold. Zinc concentrate sales were 22% below the prior year due to lower production and grades but this was partially offset by a 9% increase in the market price for zinc versus the prior year. Silver revenues were consistent with the prior year, as lower volumes were offset by an increase in price. Other revenues in the prior year included the sale of sulphuric acid which is now supplied to Aktogay for heap leach operations.

### Gross EBITDA (excluding special items)

Gross EBITDA improved by \$33 million compared to the prior year as lower revenues were more than offset by a reduction in cash operating costs. Cash operating costs of \$342 million fell by 15% compared to 2015 (excluding the \$28 million cost of acquiring third-party cathode) despite a \$19 million increase in costs at Bozymchak resulting from a full year of capacity output.

The reduction in operating costs was largely the result of foreign exchange. A significant portion of the East Region's operating costs are denominated in tenge. Following a free float in August 2015, the tenge traded at an average of 342 KZT/\$ during 2016 compared to an average of 222 KZT/\$ in 2015. Management has taken a robust position in the renegotiation of contracts following the devaluation and where possible, has delayed tariff increases. The full impact of tariff increases resulting from the devaluation is expected to feed into costs from 2017. In addition, there

has been a continued focus on cost control and optimisation initiatives which, combined with a fall in the cost of key input prices such as smelting charges, fuel and transportation charges, has reduced costs.

The gross cash cost of 191 USc/lb was 17% below the 230 USc/lb recorded in the prior year due to the lower cash operating costs noted above. This was at the lower end of guidance of 190-210 USc/lb. The fall in net cash costs from 109 USc/lb to 68 USc/lb is due to the reduction in gross cash cost, the increase in gold volumes from Bozymchak and higher market prices for all by-products, partially offset by lower zinc volumes.

The gross cash cost of copper sold for East Region and Bozymchak is expected to increase by around 20% to 230-250 USc/lb in 2017. This is largely attributable to the expected reduction in copper volumes due to the closure of the Yubileyno-Snegirikhinsky mine at the end of the year and lower volumes and grades from the Orlovsky mine which will operate a six-day week throughout 2017. This is expected to result in a reduction in copper production of around 20% from 2016 levels which will put upward pressure on unit costs. In addition, costs will reflect the full impact of inflation following the devaluation while in Kyrgyzstan new legislation will increase salaries. The 2017 cash cost guidance is set assuming the tenge continues to trade in the mid-300s.

## Capital expenditure

### Sustaining

Sustaining capital expenditure totalled \$50 million in 2016, which was \$17 million below the prior year and below the guidance of \$70-80 million. Management has deferred capital expenditure where possible with optimisation and less critical maintenance moved into 2017. Expenditure in 2016 includes mine development works, the purchase of mine equipment, expansion of tailings facilities and ventilation shaft maintenance at Orlovsky.

In 2017 sustaining capital requirements for the East Region and Bozymchak are expected to be around \$70 million including approximately \$15 million on optimisation projects deferred from 2016. Optimisation projects include the construction of a railway line between Artemyevsky and the Nikolayevsky concentrator.

### Expansionary

Expansionary capital in 2016 of \$12 million related to the initial mine development works for the extension of the existing Artemyevsky mine and was incurred to develop a ventilation tunnel. The majority of the expenditure for the project will occur from 2019, with expenditure estimated at around \$30 million in 2017 and 2018 for long-lead items such as shaft development.

## OTHER PROJECTS

The Group expects to make available up to \$20 million during 2017 for other projects, including further studies at Koksay and to study the feasibility of construction of a copper smelter in Kazakhstan. The smelter would process copper concentrate from Bozshakol and Aktogay. Any decision to proceed with construction will be subject to additional technical and economic evaluation and the availability of suitable financing. The Group acquired Koksay, a third major growth project, in 2014 which is located in south eastern Kazakhstan. The project is estimated to have a life of over 20 years with average annual production of around 80 kt of copper cathode equivalent along with gold, silver and molybdenum by-products. In 2016 expenditure of \$1 million was incurred on the project to continue scoping study works.

## FINANCIAL REVIEW

### 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 2016. In preparing the consolidated financial statements, the Group did not apply or adopt any standards, interpretations or amendments that were issued but not yet effective.

The Bozshakol sulphide and Aktogay oxide plants commenced sales during 2016 and were in pre-commercial production until they were declared commercial on 27 October 2016 and 1 July 2016 respectively. During the pre-commercial production phase, revenues and operating costs were capitalised within property, plant and equipment as part of the cost of construction and are not included in the income statement. The Financial Review and the condensed consolidated financial statements (note 4(a)(i)) include the non-IFRS measures Gross Revenues and Gross EBITDA, which incorporate the results of the Bozshakol sulphide and Aktogay oxide plants before capitalisation to provide a measure of their performance for the full year.

For the year ended 31 December 2015, Gross Revenues and Gross EBITDA include Bozymchak's pre-commercial production activities. Bozymchak achieved commercial production on 1 July 2015 and from that date its revenues and related costs were recognised in the income statement.

### Income statement

An analysis of the consolidated income statement is shown below:

\$ million (unless otherwise stated)	2016	2015
Gross Revenues	969	677
Gross EBITDA (excluding special items)	492	208
Revenues	766	665
Cash operating costs	(415)	(463)
<b>EBITDA (excluding special items)</b>	<b>351</b>	<b>202</b>
Special items:		
Less: write-offs and impairment charges	(3)	(12)
Less: loss on disposal of assets	–	(2)
Add: NFC deferral benefit	–	16
Less: MET and royalties	(70)	(62)
Less: depreciation, depletion and amortisation	(60)	(52)
<b>Operating profit</b>	<b>218</b>	<b>90</b>
Net finance income/(costs)	2	(78)
<b>Profit before taxation</b>	<b>220</b>	<b>12</b>
Income tax expense	(43)	(24)
<b>Profit/(loss) for the year</b>	<b>177</b>	<b>(12)</b>
Non-controlling interests	–	–
<b>Profit/(loss) attributable to equity holders of the Company</b>	<b>177</b>	<b>(12)</b>
<b>Earnings per share attributable to equity shareholders of the Company</b>		
EPS – basic and diluted (\$)	0.40	(0.03)
EPS based on Underlying Profit/(Loss) (\$)	0.40	(0.02)

### Gross Revenues and revenues

Gross Revenues for 2016 were \$969 million, an increase of 43% from the prior year due to the contributions from Bozshakol and Aktogay of \$280 million and \$68 million respectively. Gross Revenues at the East Region and Bozymchak reduced by \$56 million to \$621 million as the increase in sales volumes from the optimised Bozymchak operations was more than offset by lower copper prices and a reduction in zinc volumes.

Revenues recognised in the income statement increased by 15% to \$766 million, reflecting the commercial revenues generated by Bozshakol and Aktogay of \$93 million and \$52 million respectively and a full year of design capacity output from Bozymchak. The growth in revenues was volume driven, offsetting the impact of lower copper prices. Revenues recognised in the income statement exclude sales from the pre-commercial production period during which revenues of \$187 million and \$16 million from Bozshakol and Aktogay were capitalised in 2016. In 2015 pre-commercial revenues of \$12 million arose from Bozymchak.

Further information on Gross Revenues and revenues by operating segment is found in the Operating Review.

## Operating profit

Operating profit for 2016 was \$218 million compared to \$90 million in 2015, reflecting improved profitability across all the segments. Volume growth at Bozshakol and Bozymchak led to increases of \$59 million and \$39 million respectively. The East Region's operating profit rose by \$24 million due to the favourable impact on costs of the 2015 tenge devaluation and lower impairments in 2016.

## EBITDA (excluding special items)

EBITDA (excluding special items) is a key non-IFRS measure that the Directors use internally to assess the performance of the Group's segments and is viewed as relevant to capital intensive industries with long life assets. This performance measure removes depreciation, depletion, amortisation, MET, royalties and those items which are non-recurring or variable in nature and which do not impact the underlying trading performance. The Directors believe that the exclusion of MET and royalties provides an informed measure of the operational profitability given the nature of the tax as further explained in the 'Taxation' section. The Directors also believe that this measure closely reflects the operating cash generative capacity and therefore the trading performance of the business as a whole. Special items are excluded to enhance the comparability of EBITDA (excluding special items) from period to period. A reconciliation of this measure to operating profit can be found in note 4(a)(i) of the condensed consolidated financial statements.

Gross EBITDA (excluding special items) includes the EBITDA (excluding special items) earned by the Group's development assets in the period prior to commercial production, which is capitalised to property, plant and equipment.

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

\$ million	2016	2015
East Region operations	227	235
Bozymchak	52	11
Bozshakol	204	(10)
Aktogay	33	(3)
Corporate services	(24)	(25)
Gross EBITDA	492	208
Less: capitalised pre-commercial production EBITDA	(141)	(6)
Bozymchak	-	(6)
Bozshakol	(137)	-
Aktogay	(4)	-
<b>EBITDA (excluding special items)</b>	<b>351</b>	<b>202</b>

Gross EBITDA (excluding special items) for the Group rose by 137% from \$208 million to \$492 million due to the contribution from the Bozshakol sulphide and Aktogay oxide plants which commenced sales activities during the first quarter of 2016 and from increased sales volumes from Bozymchak. The Gross EBITDA (excluding special items) margin for the Group improved from 31% in 2015 to 51% in 2016 due to Bozshakol's low cash operating costs and the tenge devaluation benefiting the East Region operations.

At Bozshakol, Gross EBITDA (excluding special items) improved from a loss of \$10 million in 2015 to a contribution of \$204 million due to the commencement of sales in the first quarter of 2016. The Bozshakol sulphide plant reached commercial levels of production on 27 October 2016, from when revenues and operating costs were recognised in the income statement.

Aktogay's Gross EBITDA (excluding special items) was \$33 million following the commencement of sales of cathode from the oxide plant in early 2016, partly offset by higher levels of operational readiness activities for the sulphide plant. The Aktogay oxide plant achieved commercial levels of production from 1 July 2016 from when revenues and operating costs were recognised in the income statement.

The East Region's Gross EBITDA (excluding special items) of \$227 million was \$8 million lower than in 2015 as lower cash operating costs partially offset a reduction in revenue. Cash operating costs in 2016 of \$306 million were \$80 million below the prior year, excluding a \$28 million cost of cathodes purchased to fulfil customer obligations, reflecting the significant impact of the August 2015 tenge devaluation on the cost base and continued cost control measures.

Bozymchak's Gross EBITDA (excluding special items) of \$52 million was higher than the \$11 million reported in 2015 due to increased production and sales volumes. During the pre-commercial production phase in the first half of 2015, EBITDA of \$6 million was capitalised to property, plant and equipment resulting in an EBITDA of \$5 million in 2015.

Corporate costs of \$24 million were broadly unchanged from 2015.

The increase in EBITDA (excluding special items) from \$202 million to \$351 million in 2016 is mainly attributed to the \$77 million increased contribution from Bozshakol and \$32 million increase from Aktogay oxide following their achievement of commercial production and the increased contribution from the Bozymchak operation of \$47 million.

Please refer to the Operating Review for a detailed analysis of the Group's EBITDA (excluding special items) by operating segment.

## **Special items**

Special items are non-recurring or variable in nature and do not impact the underlying trading of the Group.

### **Special items within operating profit:**

#### **2016**

##### ***Impairment charges***

During 2016, an impairment of \$3 million at the East Region operations has been recognised against property, plant and equipment which is no longer expected to be utilised.

#### **2015**

##### ***Impairment charges***

During 2015, the following impairment charges were recognised:

- Property, plant and equipment – a charge of \$8 million primarily related to the impairment of administrative land and buildings in Kazakhstan, retained in the Restructuring, which were not in use.
- Mining assets – a charge of \$4 million against mine development works which were not expected to be utilised.

##### ***Loss on disposal of assets***

During 2015, a loss on the disposal of mining assets of \$2 million was recognised relating to assets that the Group no longer intends to develop.

##### ***NFC deferral benefit***

In November 2015, the Group signed an agreement with NFC under which \$300 million of Aktogay construction costs, which were scheduled to be paid in 2016 and 2017, will be settled in the first half of 2018 with no change to the overall amount payable to NFC. The agreement to defer payments gave rise to a non-cash gain of \$16 million representing the estimated benefit to the Group.

##### ***Impact of fire at Bozshakol***

A fire occurred in August 2015 in the grinding area of the Bozshakol concentrator which caused \$7 million of damage to equipment and was covered by construction insurance. The damaged equipment was written off to other operating expenses with the insurance payment recognised in other operating income with a net effect of nil.

## **Other items excluded from EBITDA (excluding special items)**

### ***MET and royalties***

MET and royalties charge in the income statement rose from \$62 million in 2015 to \$70 million in 2016, reflecting the increase in metal in ore mined during commercial production from the Bozshakol and Aktogay operations and royalties incurred on higher Bozymchak sales volumes.

At Bozshakol, the total MET incurred for the year was \$65 million (2015: \$17 million), of which \$25 million (2015: \$17 million) was incurred prior to commercial production and capitalised to property, plant and equipment while \$33 million (2015: \$11 million) was in respect of stockpiled clay ore and included in the cost of non-current inventory on the balance sheet. At Aktogay, the total MET charge for the year was \$17 million, \$9 million of which related to pre-commercial production. Neither Bozshakol or Aktogay charged any MET to the income statement in 2015.

The MET charge for the East Region of \$50 million for 2016 was below the \$61 million charge in the prior year reflecting lower metal in ore extracted and a fall in LME copper prices. Bozymchak incurred \$5 million of royalties and social development tax compared to \$1 million incurred in 2015 after the achievement of commercial production.

### ***Depreciation, depletion and amortisation***

Depreciation, depletion and amortisation for 2016 of \$60 million is \$8 million higher than the \$52 million charge in 2015 as depreciation of the Bozshakol and Aktogay assets began on achievement of commercial production,



increasing the charge by \$17 million. At Bozymchak, depreciation increased by \$4 million reflecting a full year of production. The depreciation charge in the East Region operations was \$13 million lower compared to 2015 due to the tenge devaluation in the second half of the prior year.

## Net finance income/(costs)

Net finance income/(costs) includes:

\$ million	2016	2015
Interest income	9	9
Interest on borrowings	(197)	(155)
Unwinding of discount on NFC deferral	(8)	–
Total interest cost	(205)	(155)
Interest capitalised	163	132
Interest expense	(42)	(23)
Interest on employee obligations and unwinding of discounts	(3)	(4)
Net foreign exchange gains/(loss)	38	(60)
<b>Net finance income/(costs)</b>	<b>2</b>	<b>(78)</b>

Overall, net finance income was \$2 million compared to a cost of \$78 million in 2015.

The total interest cost on borrowings amounted to \$197 million and was \$42 million higher than the \$155 million incurred in the prior year. The increase is attributed to higher LIBOR rates in 2016 affecting the Group's interest cost. The unwinding of the discount on the NFC deferral of \$8 million, being the implied interest cost on the \$300 million deferral agreed in 2015, is capitalised to the cost of the Aktogay sulphide plant until it reaches commercial production.

The interest expense of \$42 million (2015: \$23 million) is after the capitalisation of interest relating to the construction of new mines and increased due to the expensing of borrowing costs associated with the Bozshakol sulphide and Aktogay oxide plants after they achieved commercial production in 2016.

The \$38 million net foreign exchange gain in 2016 was principally driven by a 9% appreciation of the Kyrgyz som and from the 18% depreciation in the UK pound sterling against the US dollar. The appreciation of the som resulted in net exchange gains of \$20 million on Bozymchak's US dollar denominated intercompany debt, while the depreciation of the UK pound sterling from June 2016 against the US dollar gave rise to a \$16 million gain on intercompany British pound liabilities. These gains were largely offset by translation losses recognised within equity.

The net exchange loss of \$60 million in 2015 was largely attributed to the depreciation of the Kyrgyz som giving rise to net exchange losses on Bozymchak's US dollar denominated intercompany net debt of \$52 million and net exchange losses of \$7 million across the Kazakhstan operations following the August 2015 tenge devaluation.

## 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 on the Group's tax charge.

\$ million (unless otherwise stated)	2016	2015
<b>Profit before taxation</b>	<b>220</b>	12
Add: MET and royalties	70	62
Add: special items within operating profit	3	(2)
<b>Adjusted profit before taxation</b>	<b>293</b>	72
Income tax expense	43	24
Add: MET and royalties	70	62
Less: recognition of deferred tax liability on special items	–	(4)
<b>Adjusted tax expense</b>	<b>113</b>	82
<b>Effective tax rate (%)</b>	<b>20</b>	200
<b>All-in effective tax rate<sup>1</sup> (%)</b>	<b>39</b>	114

<sup>1</sup> The all-in effective tax rate is calculated as the income tax expense plus MET and royalties less the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for MET and royalties and special items. The all-in effective tax rate is considered to be a representative tax rate on the recurring profits of the Group.

## Effective tax rate

The effective tax rate was 20%, considerably below the prior year when the Group recorded a much lower profit before tax. The higher level of profitability in 2016 reduced the impact of non-deductible items within the Group's Kazakhstan operations. The effective tax rate was also supported by the utilisation of historic tax losses at the Bozymchak operations. The effective tax rate in 2015 of 200% arose as a tax charge of \$24 million was realised on a profit before taxation of \$12 million and reflects unrecognised tax losses from the Bozymchak operations and the Group's UK financing entity and higher non-deductible expenses incurred principally at the East Region.



## All-in effective tax rate

The all-in effective tax rate decreased to 39% from 114% in 2015 as the adjusted profit before taxation increased by \$221 million following the higher profitability across the operations and the utilisation of historic tax losses at Bozymchak. MET and royalties increased by \$8 million following commercial production at Bozshakol and Aktogay oxide and increased sales volumes at Bozymchak, partially offset by lower metal in ore mined from the East Region operations and lower copper prices. The higher all-in effective rate in 2015 was negatively impacted by unrecognised tax losses at Bozymchak and by MET representing a greater proportion of the adjusted profit before taxation. As MET is determined independently of the profitability of operations, in periods of lower profitability the all-in effective tax rate increases, as the impact of MET and royalties is elevated due to their revenue based nature. Conversely, during periods of higher profitability, the MET and royalties' impact on the all-in effective tax rate decreases.

## Taxation related special items:

### 2015

The taxation special items relate to the tax effects on the \$16 million NFC deferral benefit and certain other impairment charges.

## 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% and 10% in Kyrgyzstan on assessable profits whilst MET is revenue-based and dependent on commodity prices.

## Underlying Profit/(Loss)

Underlying Profit/(Loss) is a non-IFRS measure and is the profit/(loss) 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. The reconciliation of Underlying Profit/(Loss) from profit/(loss) attributable to equity holders of the Company is set out below:

\$ million (unless otherwise stated)	2016	2015
Net profit/(loss) attributable to equity holders of the Company	177	(12)
Special items:		
Write-offs and impairment charges	3	12
Loss on disposal of assets	-	2
NFC deferral benefit	-	(16)
Taxation effect of special items:		
Recognition of deferred tax liability on special items	-	4
<b>Underlying Profit/(Loss)</b>	<b>180</b>	<b>(10)</b>
Weighted average number of shares in issue (million)	447	446
Ordinary EPS – basic and diluted (\$)	0.40	(0.03)
EPS based on Underlying Profit/(Loss) – basic and diluted (\$)	0.40	(0.02)

The Group's net profit attributable to equity holders of the Company was \$177 million in 2016 compared to a loss of \$12 million for the year ended 31 December 2015.

The Underlying Profit for the year was \$180 million compared to a loss of \$10 million in the prior year, primarily due to increased operating profit across all the Group's operations and from the impact of exchange gains compared to exchange losses in the prior year.

## Earnings per share

Basic earnings per share of \$0.40 increased from the \$0.03 loss per share in 2015, whilst earnings per share based on Underlying Profit rose to \$0.40 from a loss of \$0.02, reflecting the Group's improved profitability.

## 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.

Taking into consideration the Group's increase in net debt during the construction and ramp up phase of two of the major growth projects, the Directors did not declare an interim dividend and will not recommend a final dividend for 2016. 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.

## Cash flows

The summary of cash flows shown below, is prepared on a basis consistent with internal management reporting with the key non-IFRS measure of Free Cash Flow which is defined as the net cash flow from operating activities before capital expenditure and non-current VAT associated with major projects less sustaining capital expenditure.

\$ million	2016	2015
<b>EBITDA (excluding special items)<sup>1</sup></b>	<b>351</b>	<b>202</b>
Change in inventories <sup>2</sup>	(19)	(23)
Change in prepayments and other current assets <sup>2</sup>	(14)	(29)
Change in trade and other receivables <sup>2</sup>	(38)	74
Change in trade and other payables and provisions <sup>2</sup>	(2)	(59)
Interest paid	(179)	(147)
MET and royalties paid <sup>2</sup>	(73)	(54)
Income tax paid	(39)	(40)
Foreign exchange and other movements	4	(1)
<b>Net cash flows from operating activities before capital expenditure and non-current VAT associated with major projects<sup>4</sup></b>	<b>(9)</b>	<b>(77)</b>
Sustaining capital expenditure	(51)	(68)
<b>Free Cash Flow</b>	<b>(60)</b>	<b>(145)</b>
Expansionary and new project capital expenditure <sup>3</sup>	(273)	(1,012)
Acquisition of mining licences	–	(46)
Non-current VAT associated with major projects	(89)	(105)
Interest received	9	7
Proceeds from disposal of property, plant and equipment	1	7
Other movements	(3)	(2)
<b>Cash flow movement in net debt</b>	<b>(415)</b>	<b>(1,296)</b>

<sup>1</sup> EBITDA (excluding special items) is defined as profit before interest, taxation, depreciation, depletion, amortisation, MET and royalties. Please refer to note 4(a)(i) of the consolidated financial statements.

<sup>2</sup> Excludes working capital and MET movements arising from pre-commercial production activities at the Bozshakol and Aktogay operations in 2016 and Bozymchak in 2015.

<sup>3</sup> Capital expenditure includes the capitalisation of \$64 million cash inflow and \$12 million cash outflow relating to pre-commercial production activities at Bozshakol and Aktogay respectively (2015: \$2 million from Bozymchak). At Bozshakol \$52 million was spent on the stockpiled clay ore and included within new project capital expenditure.

<sup>4</sup> The difference between 'net cash flow from operating activities before capital expenditure and non-current VAT associated with major projects' and net cash used in operating activities' as reflected on the Group cash flow statement, is the VAT paid on the construction of the major projects.

## Summary of the year

Net cash flows from operating activities before other expenditure associated with major projects improved following higher profitability and lower sustaining capital expenditure, partly offset by higher interest payments on borrowings, increased MET payments from Bozshakol and Aktogay following commercial production and higher working capital requirements, notably accounts receivable in December 2016.

## Working capital

The working capital movements in the table above exclude the period of pre-commercial production at Bozshakol and Aktogay which are included within expansionary and new project capital expenditure.

- inventory levels have risen by \$19 million following an increase in raw materials requirements at the Bozshakol and Aktogay operations and a small increase in East Region and Bozymchak work in progress at the Balkhash smelter. The \$47 million increase in inventory as reflected in the IFRS based cash flow statement (see note 13) includes MET and depreciation, both production costs which are excluded from the cash flow above as MET is reflected separately and EBITDA (excluding special items) is stated before depreciation and amortisation;
- prepayments and other current assets increased by \$14 million primarily due to a build-up of VAT receivable at the East Region and Bozymchak operations and advances paid for goods and services at the Aktogay oxide operations. The East Region operations received \$30 million in VAT refunds during 2016;
- trade and other receivables increased by \$38 million mainly due to higher volumes and prices of Bozshakol concentrate sales over the last two months of the year; and
- creditors and provisions decreased by \$2 million as creditor reductions from the East Region, Bozymchak and Corporate segments were partly offset by increased trade payables at the Bozshakol and Aktogay operations. The \$9 million accounts payable and provision inflow reflected in the IFRS based cash flow statement (see note 13) includes the accruals relating to MET and royalties. The cash flow shown above shows MET and royalty payments separately.

Working capital movements at Bozshakol and Aktogay incurred during pre-commercial production (financed in part by the project budgets) are reflected within expansionary capital expenditure in the cash flow above and are not

included in the Free Cash Flow. The pre-commercial working capital movements include a \$39 million outflow for consumables and raw materials, a \$40 million increase in trade and other receivables and a \$3 million increase in prepayments, partly offset by a \$45 million increase in trade creditors, including MET payable during this period.

In 2015, inventory levels increased by \$23 million following a build-up of work in progress at the Balkhash smelter. Trade and other receivables decreased by \$74 million mainly due to the winding down of trading relationships with the Disposal Assets. Prepayments increased by \$29 million from a build-up of VAT in excess of refunds over the course of the year. Trade and other payables and provisions decreased by \$59 million in 2015, reflecting the settlement of amounts due to the Disposal Assets in respect of sales arrangements which ended in late 2014.

### **Interest cash flows**

Interest paid during the year was \$179 million, compared with the \$147 million paid in the prior year. The increased payment is consistent with the higher borrowings cost for the year at \$197 million compared to \$155 million in the prior year. Interest payments are made semi-annually under the CDB Bozshakol/Bozymchak and CDB Aktogay US dollar facilities, quarterly under the CDB Aktogay RMB facility and monthly under the pre-export finance facility.

### **Income taxes and Mineral Extraction Tax**

Income tax payments of \$39 million were slightly below the income tax charge which includes deferred tax. At 31 December 2016, the Group's net income tax payable was \$4 million, compared to \$11 million in 2015.

MET and royalty payments increased to \$73 million reflecting the payments made by Bozshakol and Aktogay following the achievement of commercial production and higher royalty payments at Bozymchak. The total MET paid on ore mined at Bozshakol and Aktogay in 2016 was \$46 million and \$19 million, with \$40 million and \$5 million respectively included within expansionary capital expenditure. Subsequent to achieving commercial production at the Bozshakol sulphide and the Aktogay oxide plant, MET of \$6 million and \$14 million was paid respectively. At 31 December 2016, MET and royalties payable was \$49 million compared to \$25 million at 31 December 2015, attributed largely to increased mining activity compared to the prior year at Bozshakol and Aktogay and higher copper prices at the end of year increasing the MET and royalties payable.

### **Free Cash Flow**

The Group's Free Cash Flow before interest payments on borrowings was \$119 million compared to \$2 million in 2015 due to the increase in operational cash flows from Bozshakol, Aktogay and Bozymchak as well as reduced sustaining capital expenditure at the East Region operations. After interest payments, Free Cash Flow was an outflow of \$60 million compared to an outflow of \$145 million in the prior year.

### **Capital expenditure**

Sustaining capital expenditure relates primarily to East Region and Bozymchak and reduced by \$17 million to \$51 million as management continue to defer expenditures where possible. Expansionary and new project expenditure of \$273 million was below the \$1,012 million invested in 2015. The decrease in expansionary expenditure is due to Bozshakol and Aktogay nearing completion and due to the agreement to defer \$300 million of the Aktogay principal contractor costs to 2018. Total Bozshakol and Aktogay capital expenditure for 2016 was \$104 million and \$156 million respectively, including \$52 million of operating cash inflows capitalised ahead of pre-commercial production and \$52 million outflow relating to the investment in stockpiled clay ore. Total Group capital expenditure incurred in 2016 was \$324 million, \$756 million below the \$1,080 million invested in the prior year. Please refer to the Operating Review for an analysis of the Group's capital expenditure by operating segment.

### **Non-current VAT**

The non-current VAT cash flow includes a substantial portion of VAT relating to the \$300 million NFC deferral paid at the end of the year and also includes the timing of payments associated with expansionary capital.

### **Other investing and financing cash flows**

In 2016, other investing cash flows relate to interest received on cash and cash equivalents and deposits of \$9 million.

In 2015, other investing cash flows principally related to the \$35 million final instalment for the Koksay licence along with transaction taxes, interest received of \$7 million and the sale of various items of property, plant and equipment within the Group for proceeds of \$7 million.

## Balance sheet

The Group's capital employed position at 31 December 2016 is shown below:

\$ million	2016	2015
Equity attributable to owners of the Company	533	319
Non-controlling interests	3	3
Borrowings	3,777	3,504
Capital employed	4,313	3,826

### Summary of movements

The Group's attributable profit for the year of \$177 million led to the increase in the equity attributable to owners of the Company and a marginal appreciation of the tenge increased the US dollar value of the Group's foreign currency operations by \$35 million.

In 2015, there was a significant reduction in net equity due to the 86% fall in value of the tenge from 31 December 2014 to 31 December 2015. The Group's mining assets are largely held within Kazakhstan based entities which have tenge functional currencies. At period ends, these non-monetary assets are consolidated and reported in US dollars at the closing exchange rate with the change in value arising from movements in the tenge exchange rate reflected in equity and not through the income statement. Whilst the consolidated net asset value of the Group's Kazakhstan based entities reduced for reporting purposes in 2015, the weaker tenge had a positive effect on their underlying economic value as it reduced their local operating costs in 2016, with revenues largely US dollar based. The Group's external liabilities, principally its bank debt, are largely US dollar denominated and therefore its value is unaffected by movements in the KZT/USD exchange rate.

### Net debt

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

\$ million	2016	2015
Cash and cash equivalents	1,108	851
Current investments	-	400
Borrowings	(3,777)	(3,504)
Net debt	(2,669)	(2,253)

Cash and cash equivalents and current investments at 31 December 2016 totalled \$1,108 million and was lower than the \$1,251 million at 31 December 2015 as the \$594 million in facility draw downs during 2016 were more than offset by the repayment of debt of \$321 million, expansionary capital expenditure and a negative Free Cash Flow after interest payments. In 2016, the Group reclassified its current investments to cash and cash equivalents to reflect the expected cash flows of the Group over the next 12 months.

In December 2016, the Group entered into a \$300 million credit facility agreement with the DBK. The facility bears interest at LIBOR plus 4.5% and is repayable in semi-annual instalments from June 2018 with the final repayment in June 2025. The borrowing was fully drawn by KAZ Minerals Aktogay LLC, the company operating the Aktogay operations and is guaranteed by KAZ Minerals PLC.

The Group announced that an increased commitment of \$50 million to the PXF facility had been agreed in December 2016 and was drawn before the end of the year. The Group also received a waiver of the net debt to EBITDA covenant under the PXF and CAT facilities which was to be tested at 31 December 2016. The covenant is next due to be tested on 30 June 2017. See going concern section for further information.

In order to manage counterparty and liquidity risk, surplus funds within the Group are held predominantly in the UK and funds remaining in Kazakhstan are utilised mainly for working capital purposes. The funds within the UK are held primarily with major European and US financial institutions and triple-'A' rated liquidity funds. At 31 December 2016, \$784 million of cash and short-term deposits were held in the UK and Europe and \$324 million, including the December 2016 proceeds from the \$300 million DBK facility, in Kazakhstan and Kyrgyzstan. The proceeds from the \$300 million DBK facility were transferred to the UK in January 2017.

At 31 December 2016, borrowings (net of amortised fees) were \$3,777 million, an increase of \$273 million from the prior year reflecting a \$250 million draw down, net of fees paid, under the CDB Aktogay US dollar finance facility and draw downs of \$300 million and \$50 million under the DBK and PXF facilities. This increase was partly offset by principal repayments of \$321 million including \$183 million under the CDB Bozshakol/Bozymchak finance facility, \$116 million under the PXF facility, \$12 million under the CDB Aktogay RMB finance facility, and \$10 million under the CAT facility. The borrowings (net of amortised fees) consisted of \$1,703 million under the CDB Bozshakol/Bozymchak facilities, \$1,456 million under the CDB Aktogay finance facilities, \$297 million under the DBK facility, \$281 million under the pre-export debt facility and \$40 million under the CAT facility.

Full details of the terms of the Group's borrowings are included in note 11 of the condensed consolidated financial statements.

## **Other significant matters**

### **East Region closure provision**

In 2016, the Group has updated its estimate of asset closure costs which resulted in a \$43 million increase to the provision in the East Region operations. In accordance with accounting standards, the provision has been calculated assuming none of the assets are sold, which management believe may be achieved for certain assets.

### **NFC deferral contract agreement**

On 17 November 2015, the Group signed an agreement with its principal construction contractor, NFC, to defer payment of \$300 million relating to the Group's Aktogay project. Under the revised terms, \$300 million of construction costs, which were scheduled to be paid in 2016 and 2017, will be settled in 2018. There was no change to the overall amount payable to NFC. The Group has recognised this liability as the cost of the services were delivered during 2016. Given the deferral, the Group has measured the liability using the effective interest method and applied a cost of borrowing of LIBOR plus 4.2%, being the interest rate on the US dollar CDB Aktogay loan. The discount arising from the effective interest method will be unwound over the repayment period. At 31 December 2016, \$284 million was recognised as a liability on the balance sheet, with \$250 million due in January 2018 and the remaining \$50 million due in July 2018.

### **Going concern**

The Group intends to enter discussions with the banks to achieve a refinancing of the PXF facility in the first half of 2017 with a view to amending the financial covenants to ensure a breach is not triggered and to increase available liquidity by extending the facility amount and the duration of the facility. Based on discussions with lenders, the Board is confident that the banks will view such a refinancing favourably provided the Group's debt service obligations continue to be maintained, which forecasts indicate will be the case. This conclusion is further supported by the short-term nature of the anticipated covenant breach and the high quality of the Group's assets, in particular, the Bozshakol and Aktogay mines which have long operational lives and provide large scale output at first quartile cash costs. The waiver obtained to the 31 December 2016 covenant testing and the additional \$50 million in commitments made available and drawn in December 2016 are further evidence of the support of the Group by its banks.

In the event of a sustained fall in commodity prices or a sustained fall in commodity prices coupled with lower than expected production from the ramp up of Bozshakol and Aktogay, other mitigating actions would be required to secure liquidity over the going concern period, with a relatively modest additional liquidity requirement in the first quarter of 2018. As a result the condensed consolidated financial statements have been prepared on a going concern basis. See note 2(a) of the condensed consolidated financial statements.

## PRINCIPAL RISKS

### Managing our risks

The Group's principal risks are set out below, along with mitigating actions. There may be other risks, unknown or currently considered immaterial, which might become material. The risks set out below are not in order of likelihood of occurrence or materiality and should be viewed, as with any forward looking statements in this document, with regard to the cautionary statement.

#### Health & safety

##### **Impact**

Mining is a hazardous industry. Health and safety incidents could result in harm to people, as well as production disruption, financial loss and reputational damage.

##### **Mitigation**

The Group's goal is for zero fatalities and to minimise health and safety incidents. Policies and procedures are designed to identify and monitor risks and to provide a clear framework for conducting business. This is supported by regular training and awareness campaigns for employees and contractors. Significant investment is being made into health and safety practices. Bozshakol and Aktogay are open pit mines which are inherently safer operating environments.

#### Business interruption

##### **Impact**

Operations are subject to a number of risks not wholly within the Group's control, including: geological and technological challenges; weather and other natural phenomena; damage to or failure of equipment and infrastructure; loss or interruption to key inputs such as electricity and water and the availability of key supplies and services, including the Balkhash smelter.

Any disruption could impact production, may require the Group to incur unplanned expenditure and negatively impact cash flows.

##### **Mitigation**

In-house and third-party specialists are utilised to identify and manage operational risks and to identify improvements. Equipment and facilities are maintained appropriately and regularly inspected. Property damage and business interruption insurance programmes provide some protection from major incidents.

Should an outage occur at the Balkhash smelter the Group believes it could sell concentrate directly to customers.

#### Political

##### **Impact**

The Group could be affected by political instability or social and economic changes in the countries in which it operates. This could include the granting and renewal of permits and changes to foreign trade or legislation that could affect the business environment and negatively impact the Group's business, financial performance and licence to operate.

##### **Mitigation**

A proactive dialogue is maintained with the Governments of Kazakhstan and Kyrgyzstan across a range of issues. Developments are monitored closely and lobbying is conducted where appropriate. Kazakhstan is one of the most politically stable and economically developed countries in Central Asia and the Board continues to view the political, social and economic environment within Kazakhstan favourably and remains optimistic about the conditions for business in the region.

#### New project construction and commissioning

##### **Impact**

Projects may fail to achieve the desired economic returns due to an inability to recover mineral resources, design or construction deficiencies, a failure to achieve expected operating parameters or because of capital or operating costs being higher than expected. Failure to effectively manage new projects or a lack of available financing may prevent or delay completion of projects.



These risks will continue in 2017 during the ramp up of the Aktogay sulphide and Bozshakol clay plant. The speed of ramp up is dependent on the successful start-up and operation of equipment and the performance of suppliers and the workforce. These factors could result in delays which could impact cash flows, liquidity and financial results.

### **Mitigation**

The Bozshakol and Aktogay major growth projects have been designed using modern, proven equipment and have experienced management teams. New projects are subject to rigorous assessment prior to approval including feasibility or technical studies and capital appraisal. Specialists are utilised throughout the life cycle of projects. Project management and capital expenditure planning and monitoring procedures are in place to review performance against milestones and budgets. This includes the Operations Ramp Up Assurance Committee which reports to the Board.

Further details regarding the major growth projects are included in the Operating Review.

## **Community and labour relations**

### **Impact**

The Group operates in areas where it is a major employer, where employees are represented by labour unions and where it may provide support to the local community. This may impose restrictions on the Group's flexibility in taking certain operating decisions. Failure to identify and manage the concerns and expectations of local communities and the labour force could affect the Group's reputation and social licence to operate, and result in production disruptions and increases in operating costs. Wage negotiations could be impacted by higher commodity prices, higher domestic inflation or the continued weakness of the tenge.

### **Mitigation**

The Group engages with community representatives, unions and employees and aims to address concerns raised by different stakeholders. Through responsible behaviour, acting transparently, promoting dialogue and complying with commitments the Group minimises potentially negative impacts. The Group has a social programme for employees and their dependants and works closely with authorities on social matters. Bozshakol and Aktogay are in remote locations where community relations risk is reduced.

## **Employees**

### **Impact**

The Group is dependent on its ability to attract and retain highly skilled personnel. Failure to do so could have a negative impact on operations or the successful implementation of growth projects and result in higher operating costs to recruit required staff. The remote location of some operations increases this challenge.

### **Mitigation**

The Group actively monitors the labour market to remain competitive in the hiring of staff and provides remuneration structures and development opportunities to attract and retain key employees. The Bozshakol and Aktogay operations teams have a detailed recruitment and training plan and includes international workers with appropriate expertise during the initial operational years to assist the successful ramp up of the operations.

## **Reserves and resources**

### **Impact**

The Group's ore reserves are largely based on an estimation method established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves, which if changed, could require the need to restate ore reserves and impact the economic viability of affected operations and development projects.

### **Mitigation**

The Group's ore reserves and mineral resources are published annually in accordance with the criteria of the JORC Code and reviewed by an independent technical expert. This includes mine site visits where considered appropriate and the conversion from the former Soviet Union estimation to that prescribed by the JORC Code. Drilling and exploration programmes are conducted to enhance the understanding of geological information.

## Legal and regulatory compliance

### **Impact**

In Kazakhstan and Kyrgyzstan all subsoil reserves belong to the State and subsoil usage rights must be renewed. Legislation, including subsoil use laws and taxation have been in force for a relatively short period of time and may be subject to change and uncertainty of interpretation, application and enforcement.

Non-compliance with legislation could result in regulatory challenges, fines, litigation and ultimately the loss of operating licences. Substantial payments of tax could arise for the Group, or tax receivable balances may not be recovered as expected.

### **Mitigation**

Management engages with the relevant regulatory authorities and seeks appropriate advice to ensure compliance with all relevant legislation and subsoil use contracts. A specialist department is tasked with monitoring compliance with the terms of subsoil use contracts. Management works closely with the tax authorities in the review of proposed amendments to legislation. Further details of the Group's tax strategy and risk management are set out in the Financial Review. Appropriate monitoring and disclosure procedures are in place for related party transactions.

## Environmental compliance

### **Impact**

Mining operations involve the use of toxic substances and requires the storage of large volumes of waste materials in tailings dams, which could result in spillages and significant environmental damage. The Group is subject to environmental laws and regulations which are continually developing, including those to tackle climate change. Failure to comply with applicable laws could lead to the suspension of operating licences, the imposition of financial penalties or costly compliance costs and reputational damage.

Increased levels of production from Bozshakol and Aktogay will increase the Group's environmental footprint and energy and water consumption.

### **Mitigation**

Policies and procedures are in place to set out required operating standards and to monitor environmental impacts. The Group liaises with relevant governmental bodies on environmental matters, including legislation changes.

Bozshakol and Aktogay utilise modern technology which will improve the Group's environmental efficiency compared to historic operations.

## Commodity price

### **Impact**

The Group's results are heavily dependent on the commodity price for copper and to a lesser extent, the prices of gold, silver and zinc. Commodity prices can fluctuate significantly and are dependent on several factors, including world supply and demand and investor sentiment. The financial impact of commodity price movements on the Group's financial position will increase with the ramp up in output from Bozshakol and Aktogay.

### **Mitigation**

The Group regularly reviews its sensitivity to fluctuations in commodity prices. The Group does not normally hedge commodity prices, but may enter into a hedge programme where the Board determines it is appropriate 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.

## Foreign exchange and inflation

### **Impact**

Fluctuations in rates of exchange or inflation in the jurisdictions to which the Group is exposed could result in future increased costs. As the functional currency of the Group's operations is the local currency, fluctuations in exchange rates can give rise to exchange gains and losses in the income statement and volatility in the level of net assets recorded on the Group's balance sheet.

### **Mitigation**

Where possible the Group conducts its business and maintains its financial assets and liabilities in US dollars. The Group generally does not hedge its exposure to foreign currency risk in respect of operating expenses.

## Exposure to China

### **Impact**

Sales are made to a limited number of customers in China, with Chinese sales to increase further as copper concentrate output increases in 2017. Treatment and refining charges are dependent upon Chinese smelting capacity and the level of copper concentrate supply in the region.

China is an important source of financing to the Group with long-term debt facilities of \$3.2 billion at 31 December 2016. In addition, the Group uses contractors, services and materials from China.

### **Mitigation**

Bozshakol and Aktogay produce a copper concentrate that is attractive to Chinese smelters, being 'clean' and high in sulphur content. The Group has established good relationships with strategic customers in China and has negotiated sales contracts for its 2017 production. The Group also intends to process a small portion of Bozshakol and Aktogay copper concentrate under a tolling arrangement with the Balkhash smelter.

The Group maintains relationships with a number of international lending banks, having the PXF facility and DBK facility in place and has the flexibility to consider other sources of capital if required.

## Acquisitions and divestments

### **Impact**

The Group may acquire or dispose of assets and businesses which fail to achieve the expected benefit or value to the Group. Changing market conditions, incorrect assumptions or deficiencies in due diligence could result in the wrong decisions being made and in acquisitions or disposals failing to deliver expected benefits. The Restructuring was effected under the laws and regulations of Kazakhstan which are subject to change and open to interpretation, including the legal and tax aspects of the Restructuring in 2014, which could give rise to liabilities for KAZ Minerals.

### **Mitigation**

A rigorous assessment process is undertaken to assess all potential acquisitions and divestments by specialist staff, supported by external advisers where appropriate. Due diligence processes are undertaken 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

### **Impact**

The Group is exposed to liquidity risk if it is unable to meet payment obligations as they fall due or is unable to access acceptable sources of finance. Non-compliance with financial covenants could result in borrowing facilities becoming uncommitted and repayable.

The debt financing of the Bozshakol and Aktogay projects has resulted in an elevated net debt level. The level of net debt is expected to peak during 2017 and reduce as Bozshakol and Aktogay ramp up to full capacity.

Failure to manage liquidity risk could have a material impact on the Group's cash flows, earnings and financial position.

### **Mitigation**

Forecast cash flows are closely monitored and the financing strategy is set by the Board. Adequate levels of committed funds are maintained with USD 1,108 million cash and committed facilities at 31 December 2016.

The Group has a successful track record of raising financing. During 2016 a \$300 million credit facility was agreed with DBK and the existing PXF facility was increased by \$50 million. The Group intends to resume discussions with the PXF banks over a longer-term refinancing of the facility, including renegotiation of covenants, following the waiver obtained earlier in the year related to the period ended 31 December 2016.

Further details regarding going concern and viability are included in note 2 to the financial statements.

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Year ended 31 December 2016

\$ million (unless otherwise stated)	Notes	2016	2015
Revenues	4(b)	766	665
Cost of sales		(413)	(429)
<b>Gross profit</b>		<b>353</b>	236
Selling and distribution expenses		(32)	(27)
Administrative expenses		(104)	(126)
Net other operating income		4	22
Impairment losses		(3)	(15)
<b>Operating profit</b>		<b>218</b>	90
Analysed as:			
Operating profit (excluding special items)		221	88
Special items	5	(3)	2
Finance income	6	116	192
Finance costs	6	(114)	(270)
<b>Profit before taxation</b>		<b>220</b>	12
Income tax expense	7	(43)	(24)
<b>Profit/(loss) for the year</b>		<b>177</b>	(12)
Analysed as:			
Underlying Profit		180	(10)
Special items	5	(3)	(2)
Attributable to:			
Equity holders of the Company		177	(12)
Non-controlling interests		–	–
		<b>177</b>	(12)
<b>Other comprehensive income/(expense) for the year after tax:</b>			
Items that may be reclassified subsequently to the income statement:			
Exchange differences on retranslation of foreign operations	2(e)	35	(1,773)
<b>Other comprehensive income/(expense) for the year</b>		<b>35</b>	(1,773)
<b>Total comprehensive income/(expense) for the year</b>		<b>212</b>	(1,785)
Attributable to:			
Equity holders of the Company		212	(1,785)
Non-controlling interests		–	–
		<b>212</b>	(1,785)
<b>Earnings per share attributable to equity shareholders of the Company</b>			
Ordinary EPS – basic and diluted (\$)	8(a)	0.40	(0.03)
EPS based on Underlying Profit – basic and diluted (\$)	8(b)	0.40	(0.02)

## CONSOLIDATED BALANCE SHEET

At 31 December 2016

\$ million	Notes	2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		8	7
Property, plant and equipment		2,670	2,019
Mining assets		422	374
Other non-current assets	9	364	256
Deferred tax asset		72	59
		<b>3,536</b>	<b>2,715</b>
<b>Current assets</b>			
Inventories		247	113
Prepayments and other current assets		54	55
Income taxes receivable		7	1
Trade and other receivables		105	23
Investments	13(c)	–	400
Cash and cash equivalents	13(b)	1,108	851
		<b>1,521</b>	<b>1,443</b>
<b>Total assets</b>		<b>5,057</b>	<b>4,158</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	10(a)	171	171
Share premium		2,650	2,650
Capital reserves	10(c)	(2,037)	(2,072)
Retained earnings		(251)	(430)
<b>Attributable to equity holders of the Company</b>		<b>533</b>	<b>319</b>
Non-controlling interests		3	3
<b>Total equity</b>		<b>536</b>	<b>322</b>
<b>Non-current liabilities</b>			
Borrowings	11	3,446	3,201
Deferred tax liability		56	31
Employee benefits		15	13
Provisions		57	9
Other non-current liabilities	12	292	9
		<b>3,866</b>	<b>3,263</b>
<b>Current liabilities</b>			
Trade and other payables		309	254
Borrowings	11	331	303
Income taxes payable		11	12
Employee benefits		2	2
Other current liabilities	12	2	2
		<b>655</b>	<b>573</b>
<b>Total liabilities</b>		<b>4,521</b>	<b>3,836</b>
<b>Total equity and liabilities</b>		<b>5,057</b>	<b>4,158</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

\$ million	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Cash flow from operations before interest and income taxes	13(a)	120	5
Interest paid		(179)	(147)
Income taxes paid		(39)	(40)
<b>Net cash flows used in operating activities</b>		<b>(98)</b>	<b>(182)</b>
<b>Cash flows from investing activities</b>			
Interest received		9	7
Proceeds from disposal of property, plant and equipment and mining assets		1	7
Purchase of intangible assets		(3)	(4)
Purchase of property, plant and equipment		(269)	(1,026)
Investments in mining assets, including licences		(52)	(96)
Licence payments for subsoil contracts		(2)	(1)
Acquisition of non-current investments		(1)	(1)
Movement in short-term bank deposits	13(c)	400	–
<b>Net cash flows from/(used in) investing activities</b>		<b>83</b>	<b>(1,114)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		594	590
Repayment of borrowings		(321)	(181)
<b>Net cash flows from financing activities</b>	13(c)	<b>273</b>	<b>409</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	13(c)	<b>258</b>	<b>(887)</b>
Cash and cash equivalents at the beginning of the year		851	1,730
Effect of exchange rate changes on cash and cash equivalents	13(c)	(1)	8
<b>Cash and cash equivalents at the end of the year</b>	13(b)	<b>1,108</b>	<b>851</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

\$ million	Notes	Attributable to equity holders of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserves <sup>1</sup>	Retained earnings	Total		
At 1 January 2015		171	2,650	(299)	(421)	2,101	3	2,104
Loss for the year		–	–	–	(12)	(12)	–	(12)
Exchange differences on retranslation of foreign operations	2(e)	–	–	(1,773)	–	(1,773)	–	(1,773)
Total comprehensive expense for the year		–	–	(1,773)	(12)	(1,785)	–	(1,785)
Share-based payments		–	–	–	3	3	–	3
<b>At 31 December 2015</b>		<b>171</b>	<b>2,650</b>	<b>(2,072)</b>	<b>(430)</b>	<b>319</b>	<b>3</b>	<b>322</b>
Profit for the year		–	–	–	177	177	–	177
Exchange differences on retranslation of foreign operations	2(e)	–	–	35	–	35	–	35
Total comprehensive income for the year		–	–	35	177	212	–	212
Share-based payments		–	–	–	2	2	–	2
<b>At 31 December 2016</b>		<b>171</b>	<b>2,650</b>	<b>(2,037)</b>	<b>(251)</b>	<b>533</b>	<b>3</b>	<b>536</b>

<sup>1</sup> Refer to note 10(c) for an analysis of 'Capital reserves'.



## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Year ended 31 December 2016

### 1. Corporate information

KAZ Minerals PLC (the 'Company') is a public limited company incorporated in England and Wales. 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 divisions as set out below. The Group consists of the East Region operations, Bozymchak, Bozshakol, Aktogay and Mining Projects including Koksay.

### 2. Basis of preparation

The financial information for the year ended 31 December 2016 does not constitute statutory accounts as defined in Sections 435(1) and (2) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting convened for 27 April 2017. The auditor has reported on these accounts; their reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

#### (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. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial Review. In addition, 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 are set out in the Notes to the Financial Statements in the Annual Report and Accounts.

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.

At 31 December 2016, the Group's net debt was \$2,669 million with total debt of \$3,777 million and gross liquid funds of \$1,108 million.

At 31 December 2016, the gross debt consisted of:

- \$1,703 million of the CDB-Bozshakol and Bozymchak facilities which amortises over the period to 2025;
- \$1,456 million of the \$1.5 billion loan facility with CDB, which amortises over the period to 2029;
- \$297 million of the DBK facility, which amortises during the period from June 2018 to June 2025;
- \$281 million for the amended PXF facility, whose principal repayments amortise over a three-year period until final maturity in December 2018; and
- \$40 million under the revolving credit facility provided by Caterpillar Financial Services (UK) Limited ('CAT').

This consolidated financial information has been prepared on a going concern basis. In making the assessment that the Group is a going concern the Board have considered the Group's cash flow forecasts for the period to 31 March 2018, the outlook for commodity prices and the assumed ramp up of production from Bozshakol and Aktogay.

As previously announced, the Group intends to enter discussions with the banks to achieve a refinancing of the PXF facility in the first half of 2017 with a view to amending the financial covenants to ensure a breach is not triggered and to increase available liquidity by extending the facility amount and the duration of the facility. Based on discussions with lenders, the Board is confident that the banks will view such a refinancing favourably provided the Group's debt service obligations continue to be maintained, which forecasts indicate will be the case. This conclusion is further supported by the short-term nature of the anticipated covenant breach and the high quality of the Group's assets, in particular, the Bozshakol and Aktogay mines which have long operational lives and provide large scale output at first quartile cash costs. The waiver obtained to the 31 December 2016 covenant testing and the additional \$50 million in commitments made available and drawn in December 2016 are further evidence of the support of the Group by its banks.

The Board is therefore confident that a refinancing of the PXF is achievable on terms that are satisfactory to the Group which would provide adequate liquidity throughout the going concern period to 31 March 2018, even in the event of a sustained reduction in commodity prices and a reasonably possible delay in the expected ramp up at Bozshakol and Aktogay (and should allow the Group to make the principal repayments due under its debt facilities in the remainder of 2018).

In the unlikely event that the Group is not successful in increasing the available liquidity through a refinancing of the PXF as expected, the Board is confident that an amendment or waiver to the financial covenants would be achieved such that the PXF facility continues to be available until its final maturity at the end of 2018. This conclusion is

supported by discussions with lenders and the approval obtained in respect of the waiver of the December 2016 covenant testing.

Under the Group's base case assumptions such a scenario would result in the Group having adequate liquidity throughout the going concern period to 31 March 2018. However, in the event of a sustained fall in commodity prices or a sustained fall in commodity prices coupled with lower than expected production from the ramp up of Bozshakol and Aktogay, other mitigating actions would be required to secure liquidity over the going concern period, with a relatively modest additional liquidity requirement in the first quarter of 2018.

In addition, in such a severe downside scenario, a moderate further amount of liquidity would be required to allow the Group to make the principal repayments due under its debt facilities in the remainder of 2018.

The Board believes that the additional liquidity which might be required in the foreseeable future in the event of reasonably possible downside scenarios occurring could be achieved through a combination of new sources of finance and/or a refinance of existing debt facilities and deferral of uncommitted capital costs. Accordingly, the Board is satisfied that it is appropriate to adopt the going concern basis of accounting in the preparation of these consolidated financial statements.

#### **(b) Basis of accounting**

The consolidated financial information has 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 where otherwise indicated.

#### **(c) Basis of consolidation**

The consolidated financial information set out the Group's financial position as at 31 December 2016 and the Group's financial performance for the year ended 31 December 2016.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to direct those activities of an enterprise that most significantly affect the returns the Group earns from its involvement with the enterprise. 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 intragroup 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.

#### **(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) Devaluation of tenge**

In 2016, the appreciation of the tenge resulted in non-cash foreign exchange gain of \$35 million due to the translation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

In 2015, the National Bank of Kazakhstan announced that the tenge would no longer be subject to management within a stated range. Following the announcement, the tenge ended 2015 at 339.47 tenge per US dollar which had resulted in the recognition of exchange gains and losses through the income statement, arising mostly on US dollar denominated monetary assets and liabilities held by the Group's Kazakhstan based subsidiaries whose functional currency is the tenge. These exchange gains and losses were not recognised as special items as following the free float of the currency, tenge exchange movements are no longer considered one-off in nature.

The fall in value of the tenge in 2015 resulted in a non-cash foreign exchange loss of \$1,773 million recognised within equity, primarily due to the translation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

### 3. Significant accounting judgements and key sources of estimation uncertainty

In the course of preparing these financial statements, the Directors make necessary 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.

The following are the critical judgements and the key assumptions and sources of estimation uncertainty concerning the future which the Directors believe are likely to have the most significant effect on the amounts recognised in the consolidated financial statements.

#### ***Achievement of commercial production***

Once a concentrator reaches the operating level intended by management and regarded to be 'commercial', capitalisation of development costs including borrowing costs ceases and the depreciation of capitalised costs begins with the revenues and operational costs being recorded in the income statement and not capitalised to the balance sheet. Significant judgement is required to determine when the Group's assets achieve commercial production, including completion of a reasonable period of commissioning; consistent achievement of operational results at a pre-determined level of expected capacity and indications exist that this level will continue; mineral recoveries are at or approaching expected levels; and the transfer of the project from the development personnel to operational personnel.

For the Bozshakol operation, commercial production of the sulphide plant was judged to have been achieved on 27 October 2016. In making this assessment, the Directors considered the performance of the plant of at least 60% of its design capacity for a three month period, which is broadly consistent with industry practice. Revenues, production costs and interest incurred on borrowings to finance the project were recognised in the income statement and depreciation of its asset base commenced from that date.

The Aktogay oxide plant achieved commercial production from 1 July 2016 after consistent production of at least 60% of its design capacity over a three month period. Revenues, production costs and interest incurred on borrowings to finance the project were recognised in the income statement with the commencement of depreciation of its assets from that date. For the Bozymchak operation, commercial production was reached on 1 July 2015. In making this assessment, the Directors considered the available capacity of the plant ahead of its planned November 2015 optimisation works and the consistent throughput of ore and plant recovery rates over a period demonstrating its ability to operate within the available parameters. Revenues and production costs and interest incurred on borrowings to finance this project were recognised in the income statement and depreciation of its asset base commenced from that date.

#### ***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 requires considerable judgement, taking account of future operational and financial plans, commodity prices, market 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 its fair value less costs to sell and value in use, which is determined on the basis of discounted future cash flows.

The preparation of discounted future cash flows includes management estimates of commodity prices, market demand and supply, future 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 factors listed above could impact the recoverable amount of the assets.

An assessment of the key external and internal factors, including short to long-term commodity prices, exchange rates, cash costs and production expectations affecting the Group and its cash generating units ('CGUs') at 31 December 2016 did not identify any indicators of impairment.

An impairment review was performed across the Group's principal CGUs at 31 December 2015 as a result of the lower short and medium-term commodity prices which were deemed to be indicators of impairment. Following the assessment, no impairments were recognised against any of the Group's CGU's.

### ***Non-current inventories***

Mining activities that may result in the stockpiling of ore which is not expected to be processed within 12 months of the balance sheet date, is considered to fall outside of the normal operating cycle of the operation and the ore is therefore classified as a non-current asset. The classification of stockpiled ore between non-current and current assets is based on judgements as to the expected timing of processing and on future production plans. The stockpiled ore is reflected at the lower of cost or net realisable value, with net realisable value subject to estimates of further processing and delivery costs and future commodity prices.

### ***Determination of ore reserves and useful lives of property, plant and equipment***

Ore 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 and reviewed by independent competent persons as defined in accordance with the JORC Code.

In assessing the life of a mine for accounting purposes, ore reserves are taken into account where there is a high degree of confidence of economic extraction (proven and probable ore 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 recoverable amounts may be affected due to changes in estimated future cash flows;
- deferral of stripping costs which are determined using a waste to ore stripping ratio;
- 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.

### ***Decommissioning and site restoration costs***

The Directors use judgement and experience to provide for and amortise these costs over the life of the mines. The ultimate cost of decommissioning and rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, emergence of new restoration techniques and costs of materials and labour. The expected timing and extent of expenditure can also change in response to changes in ore reserve estimates, processing levels and even commodity prices. In estimating these costs, judgement is made on the expected timing of closure while future costs are discounted using expected discount rates. As such, there could be significant adjustments to the current provisions which would affect the future financial performance of the Group.

### ***Taxes***

The Directors make estimates and judgements in relation to the measurement and recognition of various taxes levied on the Group, which are both payable and recoverable. The estimation and judgement applies particularly to corporate income taxes, transfer pricing, VAT, royalties, non-deductible items and outcomes of tax disputes that would affect recognition of tax liabilities and deferred tax assets. Estimation and judgement over measurement and recognition also applies to taxes which are recoverable by the Group, principally VAT paid, in assessing future recoverability and the timing of such recovery. The tax obligations and receivables, upon audit by the tax authorities at a future date, may differ as a result of differing interpretations. These interpretations may impact estimates over the expected timing and quantum of taxes payable and recoverable.

## **4. Segment information**

Information provided to the Group's Board of Directors for the purposes of resource allocation and the assessment of segmental performance is prepared in accordance with the management and operational structure of the Group. For management and operational purposes, the Group is organised into five 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 Group's operating segments are:

### ***East Region***

The East Region is managed as one operating segment which contains the entity Vostoksvetmet LLC ('VCM'), whose principal activity is the mining and processing of copper and other metals which are produced as by-products from four underground mines and three concentrators located in the eastern region of Kazakhstan; and the associated international sales and marketing activities managed out of the UK. The East Region mines and concentrators are considered as one business segment given their relative operational similarity, use of common infrastructure, similar mining and concentrator methodologies, product profile and central management team.

### ***Bozymchak***

The Bozymchak copper-gold open pit mine and concentrator located in Kyrgyzstan and the associated international sales and marketing activities managed out of the UK. The Bozymchak operation achieved commercial production on 1 July 2015 with its revenues and costs being recorded in the income statement from that date.

### ***Bozshakol***

The Bozshakol open pit, sulphide concentrator and clay plant located in the Pavlodar region of Kazakhstan and the associated international sales and marketing activities managed out of the UK. The sulphide operation, which sells copper concentrate with gold content as a by-product, was commissioned in February 2016 and has been managed separately from the Mining Projects. The Bozshakol sulphide concentrator achieved commercial production on 27 October 2016 with its revenues and costs being recorded in the income statement from that date. The clay plant is currently in commissioning and is included in the Bozshakol operating segment due to sharing of infrastructure and mining pit, its relative small size and to reflect the Group's management structure. For the year ended 31 December 2015, Bozshakol was included in the Mining Projects segment.

### ***Aktogay***

The Aktogay open pit, sulphide concentrator and oxide plant located in the East of Kazakhstan and the associated international sales and marketing activities managed out of the UK. The sulphide concentrator commenced commissioning in the last quarter of 2016 and is in pre-commercial production. With the commissioning of the sulphide plant, Aktogay is reflected as a separate segment. The oxide operation, which sells copper cathode reached commercial production on 1 July 2016 having achieved consistent production of at least 60% above its design capacity for a period of over three months. Its revenues and production costs were recognised in the income statement with the commencement of depreciation of its assets from that date. The oxide plant is included in the Aktogay operating segment due to sharing of infrastructure, its relative small size and to reflect the Group's management structure. For the year ended 31 December 2015, Aktogay was included in the Mining Projects segment.

### ***Mining Projects***

The Group's project companies, whose responsibility was the development of the Group's major growth projects until the respective concentrators are commissioned. For the year ended 31 December 2016, the segment includes the Koksay mineral deposit. The Mining Projects segment for the year ended 31 December 2015 included Bozshakol and Aktogay prior to their commissioning in 2016.

### ***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, mineral extraction tax and royalties, 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 7). EBITDA (excluding special items) is a key non-IFRS measure that the Directors use internally to assess the performance of the Group's segments and is viewed as relevant to capital intensive industries with long life assets. The Directors also believe that this measure closely reflects the operating cash generative capacity and therefore the trading performance of the business as a whole. Special items are excluded to enhance comparability of EBITDA (excluding special items) from period to period.

The Group's Treasury department manages the Group's borrowings and 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.

## (a) Operating segments

### (i) Income statement information

\$ million	Year ended 31 December 2016					Total
	East Region	Bozymchak	Bozshakol	Aktogay	Corporate Services	
<b>Revenues</b>						
Gross Revenues	533	88	280	68	–	969
Pre-commercial production revenues capitalised to property, plant and equipment <sup>1</sup>	–	–	(187)	(16)	–	(203)
<b>Revenues – income statement</b>	<b>533</b>	<b>88</b>	<b>93</b>	<b>52</b>	<b>–</b>	<b>766</b>
Gross EBITDA (excluding special items)	227	52	204	33	(24)	492
Pre-commercial production EBITDA capitalised to property, plant and equipment <sup>1,2</sup>	–	–	(137)	(4)	–	(141)
<b>EBITDA (excluding special items)</b>	<b>227</b>	<b>52</b>	<b>67</b>	<b>29</b>	<b>(24)</b>	<b>351</b>
Special items – note 5:						
Less: impairment charges	(3)	–	–	–	–	(3)
<b>EBITDA</b>	<b>224</b>	<b>52</b>	<b>67</b>	<b>29</b>	<b>(24)</b>	<b>348</b>
Less: depreciation, depletion and amortisation <sup>3</sup>	(35)	(7)	(11)	(6)	(1)	(60)
Less: mineral extraction tax and royalties <sup>2,3</sup>	(50)	(5)	(7)	(8)	–	(70)
<b>Operating profit/(loss)</b>	<b>139</b>	<b>40</b>	<b>49</b>	<b>15</b>	<b>(25)</b>	<b>218</b>
Net finance income						2
Income tax expense						(43)
<b>Profit for the year</b>						<b>177</b>

\$ million	Year ended 31 December 2015					Total
	East Region	Bozymchak	Bozshakol	Mining Projects Aktogay	Corporate Services	
<b>Revenues</b>						
Gross Revenues	649	28	–	–	–	677
Pre-commercial production revenues capitalised to property, plant and equipment <sup>1</sup>	–	(12)	–	–	–	(12)
<b>Revenues – income statement</b>	<b>649</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>665</b>
Gross EBITDA (excluding special items)	235	11	(10)	(3)	(25)	208
Pre-commercial production EBITDA capitalised to property, plant and equipment <sup>1,2</sup>	–	(6)	–	–	–	(6)
<b>EBITDA (excluding special items)</b>	<b>235</b>	<b>5</b>	<b>(10)</b>	<b>(3)</b>	<b>(25)</b>	<b>202</b>
Special items – note 5						
Less: impairment charges	(12)	–	–	–	–	(12)
Add: NFC deferral benefit	–	–	–	16	–	16
Less: gain/(loss) on disposal of assets	1	–	–	–	(3)	(2)
<b>EBITDA</b>	<b>224</b>	<b>5</b>	<b>(10)</b>	<b>13</b>	<b>(28)</b>	<b>204</b>
Less: depreciation, depletion and amortisation	(48)	(3)	–	–	(1)	(52)
Less: mineral extraction tax and royalties <sup>2</sup>	(61)	(1)	–	–	–	(62)
<b>Operating profit/(loss)</b>	<b>115</b>	<b>1</b>	<b>(10)</b>	<b>13</b>	<b>(29)</b>	<b>90</b>
Net finance costs						(78)
Income tax expense						(24)
<b>Loss for the year</b>						<b>(12)</b>

<sup>1</sup> During pre-commercial production, revenues and operating costs are capitalised to property, plant and equipment.

<sup>2</sup> MET and royalties have been excluded from the key financial indicator of EBITDA. The Directors believe that MET and royalties are a substitute for a tax on profits, hence their exclusion provides informed measure of the operational performance of the Group. The MET incurred at Bozshakol and Aktogay (oxide) during the pre-commercial production stage of \$25 million (2015: \$17 million) and \$9 million (2015: \$3 million) respectively has been capitalised to property, plant and equipment. MET incurred on stockpiled clay ore at Bozshakol and included within non-current inventory was \$33 million (2015: \$11 million).

<sup>3</sup> Depreciation, depletion and amortisation and MET and royalties excludes the costs associated with inventories on the balance sheet.



## (ii) Balance sheet information

							At 31 December 2016
\$ million	East Region	Bozymchak	Bozshakol	Aktogay	Mining Projects – Koksay	Corporate Services	Total
<b>Assets</b>							
Property, plant and equipment, mining assets and intangible assets <sup>1</sup>	247	58	1,291	1,261	241	2	3,100
Intragroup investments	–	–	–	–	–	5,195	5,195
Other non-current assets <sup>2</sup>	8	21	214	120	1	–	364
Operating assets <sup>3</sup>	147	51	140	82	–	346	766
Inter-segment loans	–	–	–	–	–	1,914	1,914
Cash and cash equivalents	35	6	33	293	1	740	1,108
<b>Segment assets</b>	<b>437</b>	<b>136</b>	<b>1,678</b>	<b>1,756</b>	<b>243</b>	<b>8,197</b>	<b>12,447</b>
Deferred tax asset							72
Income taxes receivable							7
Elimination							(7,469)
<b>Total assets</b>							<b>5,057</b>
<b>Liabilities</b>							
Employee benefits and provisions	64	2	6	2	–	–	74
Inter-segment borrowings	16	120	1,020	758	–	–	1,914
Operating liabilities <sup>4</sup>	67	84	291	420	3	98	963
<b>Segment liabilities</b>	<b>147</b>	<b>206</b>	<b>1,317</b>	<b>1,180</b>	<b>3</b>	<b>98</b>	<b>2,951</b>
Borrowings							3,777
Deferred tax liability							56
Income taxes payable							11
Elimination							(2,274)
<b>Total liabilities</b>							<b>4,521</b>

							At 31 December 2015
\$ million	East Region	Bozymchak	Bozshakol	Aktogay	Mining Projects – Koksay	Corporate Services	Total
<b>Assets</b>							
Property, plant and equipment, mining assets and intangible assets <sup>1</sup>	190	47	1,166	756	239	2	2,400
Intragroup investments	–	–	–	–	–	6,855	6,855
Other non-current assets <sup>2</sup>	6	17	158	74	1	–	256
Operating assets <sup>3</sup>	127	31	18	20	–	149	345
Inter-segment loans	–	–	–	–	–	1,579	1,579
Current investments	–	–	–	–	–	400	400
Cash and cash equivalents	22	4	6	31	–	788	851
<b>Segment assets</b>	<b>345</b>	<b>99</b>	<b>1,348</b>	<b>881</b>	<b>240</b>	<b>9,773</b>	<b>12,686</b>
Deferred tax asset							59
Income taxes receivable							1
Elimination							(8,588)
<b>Total assets</b>							<b>4,158</b>
<b>Liabilities</b>							
Employee benefits and provisions	17	2	3	2	–	–	24
Inter-segment borrowings	16	135	860	568	–	–	1,579
Operating liabilities <sup>4</sup>	52	74	157	48	4	84	419
<b>Segment liabilities</b>	<b>85</b>	<b>211</b>	<b>1,020</b>	<b>618</b>	<b>4</b>	<b>84</b>	<b>2,022</b>
Borrowings							3,504
Deferred tax liability							31
Income taxes payable							12
Elimination							(1,733)
<b>Total liabilities</b>							<b>3,836</b>

<sup>1</sup> Property, plant and equipment, mining assets and intangible assets are located in the principal country of operations of each operating segment. The East Region, Bozshakol, Aktogay and Mining Projects segments operate in Kazakhstan. Bozymchak operates in Kyrgyzstan.

<sup>2</sup> Other non-current assets include other non-current investments, non-current VAT receivable, advances paid for property, plant and equipment and long-term inventory.

<sup>3</sup> Operating assets comprise inventories, prepayments and other current assets and trade and other receivables, including intragroup receivables.

<sup>4</sup> Operating liabilities comprise trade and other payables, including intragroup payables, other non-current and current liabilities.

### (iii) Capital expenditure<sup>1</sup>

\$ million	Year ended 31 December 2016						
	East Region	Bozymchak	Bozshakol <sup>2</sup>	Aktogay <sup>2</sup>	Mining Projects – Koksay	Corporate Services	Total
Property, plant and equipment <sup>2,3</sup>	21	7	90	150	–	1	269
Mining assets <sup>2,3</sup>	31	2	12	6	1	–	52
Intangible assets	1	–	2	–	–	–	3
<b>Capital expenditure</b>	<b>53</b>	<b>9</b>	<b>104</b>	<b>156</b>	<b>1</b>	<b>1</b>	<b>324</b>

\$ million	Year ended 31 December 2015						
	East Region	Bozymchak <sup>2</sup>	Bozshakol <sup>2</sup>	Aktogay <sup>2</sup>	Mining Projects – Koksay	Corporate Services	Total
Property, plant and equipment <sup>2,3</sup>	44	5	514	462	1	–	1,026
Mining assets <sup>2,3</sup>	21	4	12	6	53	–	96
Intangible assets	–	–	1	2	–	1	4
<b>Capital expenditure</b>	<b>65</b>	<b>9</b>	<b>527</b>	<b>470</b>	<b>54</b>	<b>1</b>	<b>1,126</b>

<sup>1</sup> The capital expenditure presented by operating segment reflects cash paid and is aligned with the Group's internal capital expenditure reporting.

<sup>2</sup> At Aktogay and Bozshakol, \$12 million of cash outflows and \$12 million cash inflows respectively, relating to pre-commercial production were capitalised (2015: outflows of \$13 million and \$21 million respectively). Of the \$12 million cash inflow at Bozshakol in 2016, \$52 million was spent on the production of long-term stockpiled clay ore. For the year ended 31 December 2015, cash capital expenditure for Bozymchak of \$9 million includes the capitalisation of \$2 million of net operating cash flows generated in the period before the project reached commercial production.

<sup>3</sup> Capital expenditure includes non-current advances paid for items of property, plant and equipment and mining assets.

### (b) Segmental information in respect of revenues

Revenues by product to third parties are as follows:

\$ million	Year ended 31 December 2016				
	East Region	Bozymchak	Bozshakol	Aktogay	Total
Copper cathodes	357	32	–	68	457
Copper in concentrate	7	3	202	–	212
Zinc in concentrate	95	–	–	–	95
Gold	26	43	–	–	69
Gold in concentrate	–	6	73	–	79
Silver	42	4	–	–	46
Silver in concentrate	–	–	5	–	5
Other revenue	6	–	–	–	6
Gross Revenues	533	88	280	68	969
Less pre-commercial production revenues capitalised to property, plant and equipment	–	–	(187)	(16)	(203)
Revenues – income statement	533	88	93	52	766

\$ million	Year ended 31 December 2015				
	East Region	Bozymchak	Bozshakol	Aktogay	Total
Copper cathodes	452	13	–	–	465
Zinc in concentrate	102	–	–	–	102
Gold	26	15	–	–	41
Silver	46	–	–	–	46
Other by-products	20	–	–	–	20
Other revenue	3	–	–	–	3
Gross Revenues	649	28	–	–	677
Less pre-commercial production revenues capitalised to property, plant and equipment	–	(12)	–	–	(12)
Revenues – income statement	649	16	–	–	665

Revenues by destination from sales to third parties are as follows:

\$ million	Year ended 31 December 2016				Total
	East Region	Bozymchak	Bozshakol	Aktogay	
China	252	23	280	15	570
Europe	182	13	–	53	248
Kazakhstan and Central Asia	99	52	–	–	151
Gross Revenues	533	88	280	68	969
Less pre-commercial production revenues capitalised to property, plant and equipment	–	–	(187)	(16)	(203)
Revenues – income statement	533	88	93	52	766

\$ million	Year ended 31 December 2015				Total
	East Region	Bozymchak	Bozshakol	Mining Projects Aktogay	
China	339	8	–	–	347
Europe	183	5	–	–	188
Kazakhstan	127	15	–	–	142
Gross Revenues	649	28	–	–	677
Less pre-commercial production revenues capitalised to property, plant and equipment	–	(12)	–	–	(12)
Revenues – income statement	649	16	–	–	665

### Year ended 31 December 2016

Two customers, which each represent more than 10% of Gross Revenues, in aggregate comprise 32% or \$313 million of Gross Revenues. The largest customer, which represents 19% (\$184 million) of Gross Revenues contributes to the Bozshakol (85%) and East Region (15%) segments. The second largest customer representing 13% of Gross Revenues (\$129 million) contributes to the Bozshakol (96%) and East Region (4%) segments.

### Year ended 31 December 2015

Five customers within the East Region segment, two of which are collectively under common control, represent 47% of revenue. The revenue from these customers is \$311 million. The revenue from the two customers under common control of \$76 million represents 11% of revenue. Revenues from the remaining major customers of \$235 million represent 35% of revenue.

## 5. Special items

Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business.

\$ million	2016	2015
Special items within operating profit		
Impairment charges	3	12
Impairment charges against property, plant and equipment	3	8
Impairment charges against mining assets	–	4
Loss on disposal of assets	–	2
NFC deferral benefit <sup>1</sup>	–	(16)
	3	(2)
Taxation related special items		
Recognition of a deferred tax liability resulting from impairment charges	–	1
Recognition of a deferred tax liability resulting from the NFC deferral benefit	–	3
Total special items	3	2

<sup>1</sup> In November 2015, the Group signed an agreement with NFC under which \$300 million of Aktogay construction costs which were scheduled to be paid in 2016 and 2017 will be settled in the first half of 2018 with no change to the overall amount payable to NFC. The agreement to defer payments gave rise to a non-cash gain of \$16 million representing the estimated benefit to the Group.

## 6. Finance income and finance costs

\$ million	2016	2015
<b>Finance income</b>		
Interest income	9	9
Foreign exchange gains	107	183
	<b>116</b>	<b>192</b>
<b>Finance costs</b>		
Interest expense	(42)	(23)
Total interest expense <sup>1</sup>	(205)	(155)
Less: amounts capitalised to the cost of qualifying assets <sup>2,3</sup>	163	132
Interest on employee obligations	(1)	(2)
Unwinding of discount on provisions and other liabilities	(2)	(2)
Finance costs before foreign exchange losses	(45)	(27)
Foreign exchange losses	(69)	(243)
	<b>(114)</b>	<b>(270)</b>

<sup>1</sup> Total interest expense includes \$197 million of interest incurred on borrowings and \$8 million relating to the unwinding of the discount on the NFC deferral agreement (see note 12).

<sup>2</sup> In 2016, the Group capitalised to the cost of qualifying assets \$155 million (2015: \$132 million) of borrowing costs incurred on the outstanding debt during the period on the CDB-Bozshakol and Bozymchak facilities at an average rate of interest (net of interest income) of 5.40% (2015: 4.97%) and on the CDB-Aktogay US\$ and CNY facilities at an average rate of interest of 5.12% and 4.33% respectively (2015: 4.64% and 3.93%). Interest capitalised includes \$8 million of unwinding of interest on the deferred NFC payable (see note 12).

<sup>3</sup> Interest cost on borrowings capitalised to qualifying assets of \$155 million will be deductible for tax purposes against future taxable income as an annual wear and tear allowance on assets or when incurred based on country specific tax definitions. The capitalised interest will provide tax relief at 20%, being the currently applicable corporate income tax rate of Kazakhstan where the assets are located.

## 7. Income taxes

Major components of income tax expense are:

\$ million	2016	2015
<b>Current income tax</b>		
Corporate income tax – current period (UK)	–	–
Corporate income tax – current period (overseas)	31	38
Corporate income tax – prior periods	1	1
<b>Deferred income tax</b>		
Corporate income tax – current period temporary differences	14	(16)
Corporate income tax – prior periods temporary differences	(3)	1
	<b>43</b>	<b>24</b>

A reconciliation of the income tax expense applicable to the accounting profit before tax at the statutory income tax rate to the income tax expense at the effective income tax rate is as follows:

\$ million	2016	2015
Profit before tax	220	12
At UK statutory income tax rate of 20.0% (2015: 20.25%) <sup>1</sup>	44	2
Underprovided in prior periods – current income tax	1	1
(Over)/under provided in prior periods – deferred income tax	(3)	1
Unrecognised tax losses	3	4
Effect of domestic tax rates applicable to individual Group entities	(5)	6
Non-deductible items:		
Transfer pricing	1	–
Other non-deductible expenses	2	10
	<b>43</b>	<b>24</b>

<sup>1</sup> The UK statutory rate for 2016 was 20.0%. For 2015, the UK statutory rate for January to March 2015 was 21.0% and for April to December 2015 is 20.0%, giving a weighted average full year rate of 20.25%.

Corporate income tax ('CIT') is calculated at 20.0% (2015: 20.25%) of the assessable profit for the year for the Company and its UK subsidiaries, 20.0% for the operating subsidiaries in Kazakhstan (2015: 20.0%) and 10.0% for the Group's Kyrgyzstan based subsidiary (2015: 10.0%).

### Effective tax rate

Tax charges are affected by the mix of profits and tax jurisdictions in which the Group operates. The lower tax rate in Kyrgyzstan lowers the Group's overall effective tax rate below the current UK statutory corporate tax rate. The impact of unrecognised tax losses and non-deductible items, including impairment losses, increases the Group's overall effective tax rate.

The following factors impact the effective tax rate for the year ended 31 December 2016:

## Unrecognised tax losses

Deferred tax assets have not been recognised on tax losses at Bozymchak, given the five year statute of limitations and as it remains uncertain whether it will have sufficient taxable profits after capital allowances in the future to utilise these losses, and in the United Kingdom, given limitations on the carry forward of Group losses.

## Other non-deductible expenses

Non-deductible items mainly comprise of supplier replaced equipment treated as gains for tax purposes and social community investments and contributions, which are not generally deductible, at Bozshakol and impairment charges and provisions recognised against various assets most notably in the East Region operations. The 2015 non-deductible expenses mainly reflect impairment charges and social spend.

## 8. Earnings per share

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

\$ million (unless otherwise stated)	2016	2015
Net profit/(loss) attributable to equity shareholders of the Company	177	(12)
Special items net of taxation – note 5	3	2
<b>Underlying Profit</b>	<b>180</b>	<b>(10)</b>
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit/(Loss) calculation	<b>446,504,093</b>	446,261,874
Ordinary EPS – basic and diluted (\$)	<b>0.40</b>	(0.03)
EPS based on Underlying Profit/(Loss) – basic and diluted (\$)	<b>0.40</b>	(0.02)

### (a) Basic and diluted EPS

Basic EPS is calculated by dividing profit/(loss) for the year attributable to equity holders 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 any share buy-back programmes are both held in treasury and treated as own shares.

### (b) EPS based on Underlying Profit/(Loss)

The Group's Underlying Profit/(Loss) is the net profit/(loss) for the year excluding special items and their resultant tax and non-controlling interest effects, as shown in the table above. EPS based on Underlying Profit/(Loss) is calculated by dividing Underlying Profit/(Loss) attributable to equity holders of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. EPS based on Underlying Profit/(Loss) is a non-IFRS measure that the Directors believe provides a consistent measure for comparing the underlying trading performance of the Group.

## 9. Other non-current assets

\$ million	2016	2015
Advances paid for property, plant and equipment	18	83
Non-current VAT receivable <sup>1</sup>	264	159
Non-current inventories <sup>2</sup>	82	17
Long-term bank deposits <sup>3</sup>	2	2
Gross value of other non-current assets	<b>366</b>	261
Provision for impairment	<b>(2)</b>	(5)
	<b>364</b>	256

<sup>1</sup> Comprises VAT incurred during the construction phase of the Bozshakol, Aktogay and Bozymchak projects which is subject to audit and other administrative procedures prior to refund.

<sup>2</sup> Non-current inventories comprise ore stockpiles that are expected to be processed in the medium term i.e. in excess of 12 months from the balance sheet date and relate mainly to the clay ore from Bozshakol.

<sup>3</sup> Long-term bank deposits include long-term deposits placed in escrow accounts with financial institutions in Kazakhstan as required by the Group's site restoration obligations.

## 10. Share capital and reserves

### (a) Allotted share capital

	Number	£ million	\$ million
<b>Allotted and called up share capital – ordinary shares of 20 pence each</b>			
At 1 January 2015, 31 December 2015 and 2016	<b>458,379,033</b>	<b>92</b>	<b>171</b>

The issued share capital was fully paid. During the year 14,774 treasury shares were used to satisfy awards under the Company's Save As You Earn (SAYE) schemes that matured in 2016. At 31 December 2016, the Company holds 11,687,056 (2015: 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 446,691,977 (2015: 446,677,203), ordinary shares (excluding treasury shares).

## (b) 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 2016 the Company made a market purchase of 250,000 shares at a cost of \$0.6 million through the Trust in anticipation of satisfying future awards. 218,249 shares (2015: 330,830) were transferred out of the Trust in settlement of share awards granted to employees that were exercised during the period.

At 31 December 2016, the Group, through the Employee Benefit Trust, owned 243,156 shares in the Company (2015: 211,405) with a market value of \$1.1 million and a cost of \$4.6 million (2015: \$0.3 million and \$4.0 million respectively). The shares held by the Trust represented 0.05% (2015: 0.05%) of the issued share capital at 31 December 2016.

## (c) Capital reserves

\$ million	Currency translation reserve	Capital redemption reserve	Total
At 1 January 2015	(330)	31	(299)
Exchange differences on retranslation of foreign operations	(1,773)	–	(1,773)
At 31 December 2015	(2,103)	31	(2,072)
Exchange differences on retranslation of foreign operations	35	–	35
<b>At 31 December 2016</b>	<b>(2,068)</b>	<b>31</b>	<b>(2,037)</b>

### (i) 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.

### (ii) Capital redemption reserve

As a result of the share buy-back programme undertaken in 2008 and the repurchase of Company shares in 2013, transfers were made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

## 11. Borrowings

	Maturity	Average interest rate during the year	Currency of denomination	Current \$ million	Non-current \$ million	Total \$ million
<b>31 December 2016</b>						
CDB-Bozshakol and Bozymchak – US\$ LIBOR + 4.50%	2025	5.40%	US dollar	183	1,520	1,703
CDB-Aktogay facility – PBoC 5 year	2028	4.33%	CNY	11	120	131
CDB-Aktogay facility – US\$ LIBOR + 4.20%	2029	5.12%	US dollar	–	1,325	1,325
Pre-export finance facility – US\$ LIBOR + 3.00% - 4.50%	2018	4.97%	US dollar	137	144	281
Caterpillar revolving credit facility – US\$ LIBOR + 4.25%	2019	4.92%	US dollar	–	40	40
Development Bank of Kazakhstan – US\$ LIBOR + 4.50%	2025	5.79%	US dollar	–	297	297
				<b>331</b>	<b>3,446</b>	<b>3,777</b>
<b>31 December 2015</b>						
CDB-Bozshakol and Bozymchak – US\$ LIBOR + 4.50%	2025	4.97%	US dollar	183	1,698	1,881
CDB-Aktogay facility – PBoC 5 year	2028	3.93%	CNY	13	140	153
CDB-Aktogay facility – US\$ LIBOR + 4.20%	2029	4.64%	US dollar	–	1,075	1,075
Pre-export finance facility – US\$ LIBOR + 3.00% - 4.50%	2018	3.69%	US dollar	107	238	345
Caterpillar revolving credit facility – US\$ LIBOR + 4.25%	2019	4.70%	US dollar	–	50	50
				303	3,201	3,504

### CDB-Bozshakol and Bozymchak facilities

On 29 December 2014, the Group signed an amendment to the \$2.7 billion CDB/Samruk-Kazyna finance facilities, which resulted in the facilities becoming bilateral with the CDB and a lowering of the interest rate from US\$ LIBOR plus 4.80% to US\$ LIBOR plus 4.50%. An arrangement fee of 0.5% was agreed of which 60% was paid in December



2014 and 40% was paid in January 2016. The amount outstanding on the previous facility at the time of the amendment was \$2.1 billion. The restructuring of the facilities with Samruk-Kazyna and the CDB completed in March 2015. All other material terms of the facilities remained unchanged. KAZ Minerals PLC acts as guarantor of the facilities.

At 31 December 2016, \$1.7 billion (2015: \$1.9 billion) was drawn under the facility agreements. Arrangement fees with an amortised cost of \$20 million (2015: \$24 million), have been netted off against these borrowings in accordance with IAS 39. \$183 million (2015: \$181 million) was repaid on the facility in 2016, with \$183 million due to be paid within twelve months of the balance sheet date.

### **CDB-Aktogay finance facility**

The CDB-Aktogay finance facility consists of a CNY 1.0 billion facility and a \$1.3 billion US dollar facility. The funds mature 15 years from the date of the first draw down. KAZ Minerals PLC acts as guarantor of the loans.

The CNY 1.0 billion facility was fully drawn at 31 December 2015. At 31 December 2016, the drawn down US dollar equivalent amount was \$131 million (31 December 2015: \$153 million). The facility accrues interest at the applicable benchmark lending rate published by the People's Bank of China. During 2016, the Group made principal payments of \$12 million with \$12 million due to be paid within twelve months of the balance sheet date. In order to protect the Group from currency risks arising on the CNY denominated debt, the Group has entered into CNY/US\$ cross currency swaps. This derivative instrument provides a hedge against any movement in the CNY exchange rate against the US dollar and swaps the interest basis from a CNY interest rate into a US\$ LIBOR interest basis. The fair value of the swap at 31 December 2016, included within payables, is \$21 million (31 December 2015: \$10 million).

The US dollar facility accrues interest at US\$ LIBOR plus 4.20%. At 31 December 2016, the \$1.3 billion facility was fully drawn following the receipt of \$250 million during the year (31 December 2015: \$1.1 billion). Arrangement fees with an amortised cost of \$15 million (31 December 2015: \$15 million), have been netted off against these borrowings in accordance with IAS 39.

### **Pre-export finance facility ('PXF')**

The PXF facility is repayable in equal monthly instalments over a three year period commencing from January 2016 until final maturity on 31 December 2018. The margin payable on the facility is variable, ranging from 3.00% to 4.50% above US\$ LIBOR, dependent on the ratio of net debt to EBITDA which will be tested semi-annually. KAZ Minerals PLC, Vostoksvetmet LLC and KAZ Minerals Sales Limited act as guarantors of the loan. On 28 October 2016, the PXF lenders agreed to a waiver of the facility's net debt to EBITDA covenant, which was to be tested at 31 December 2016, to 30 June 2017. In December 2016, an additional \$50 million was drawn under the accordion feature of the facility.

At 31 December 2016, \$281 million (31 December 2015: \$345 million) was drawn under the facility. Arrangement fees with an amortised cost of \$2 million (31 December 2015: \$4 million), have been netted off against these borrowings in accordance with IAS 39. \$116 million (2015: \$nil million) was repaid on the facility in 2016, with \$141 million due to be paid within twelve months of the balance sheet date.

### **Development Bank of Kazakhstan ('DBK')**

On 14 December 2016, the Group entered into a \$300 million credit facility with the DBK which was fully drawn by the end of the year. The facility extends for a term of eight and a half years and bears an interest rate of US\$ LIBOR plus 4.5%. The facility is repayable in instalments with the first repayment due in June 2018, followed by semi-annual repayments in May and November of each year from 2019 until 2024 and a final repayment in June 2025. The facility was drawn by KAZ Minerals Aktogay LLC, a Kazakhstan wholly owned subsidiary. KAZ Minerals PLC acts as guarantor of the facility.

At 31 December 2016, \$297 million was drawn under the facility. Arrangement fees with an amortised cost of \$3 million have been netted off against these borrowings in accordance with IAS 39.

### **Revolving credit facility**

On 14 August 2015, the Group entered into a \$50 million revolving credit facility provided by Caterpillar Financial Services (UK) Limited ('CAT'), a subsidiary of Caterpillar Inc. The CAT facility is available for three years from the date of signing, and is repayable in four equal quarterly instalments ending in 2019. An interest rate of US\$ LIBOR plus 4.25% is payable on amounts outstanding under the facility. The financial covenants under this facility are identical to those applicable to the Group's existing PXF facility. In November 2016, the lender agreed to a waiver of the net debt to EBITDA covenant, which was to be tested at 31 December 2016, to 30 June 2017. Certain Caterpillar equipment used at the Bozshakol and Aktogay operations have been pledged as collateral against the facility. During the year \$10 million was repaid. At 31 December 2016, the facility was fully drawn at \$40 million (31 December 2015: \$50 million). KAZ Minerals PLC acts as guarantor of the facility.

## Undrawn project and general and corporate purpose facilities

\$ million	2016	2015
CDB-Aktogay finance facility (within KAZ Minerals Finance PLC)	–	250

### 12. Other liabilities

\$ million	Payables to NFC	Payments for licences	Total
At 1 January 2015	–	11	11
Additions	–	–	–
Payments	–	(1)	(1)
Unwinding of discount	–	1	1
<b>At 31 December 2015</b>	–	11	11
Additions	276	–	276
Payments	–	(2)	(2)
Unwinding of discount	8	1	9
<b>At 31 December 2016</b>	<b>284</b>	<b>10</b>	<b>294</b>
Current	–	2	2
Non-current	284	8	292
<b>At 31 December 2016</b>	<b>284</b>	<b>10</b>	<b>294</b>
Current	–	2	2
Non-current	–	9	9
<b>At 31 December 2015</b>	–	11	11

#### (a) Payables to NFC

On 17 November 2015, the Group reached an agreement with its principal construction contractor at Aktogay, NFC, to defer payment of \$300 million. Under these terms, \$300 million scheduled for payment in 2016 and 2017 was deferred for settlement in the first half of 2018, with \$250 million becoming payable shortly after 31 December 2017 and \$50 million shortly after 30 June 2018. The extended credit terms arising from the agreement were discounted using a rate of US\$ LIBOR plus 4.20% on the estimated cost of services. The discount rate applied is in line with the CBD Aktogay facility. The unwinding of the interest will be charged to property, plant and equipment as a borrowing cost (see note 11) until the date the sulphide plant has reached commercial production, after which it will be charged to the income statement within finance costs. At 31 December 2016, the full liability, discounted to its present value, was recognised.

#### (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 licenced deposits. Some of these obligations are payable in tenge while others are payable in US dollars, depending on the terms of each subsoil use contract. The total amount payable by the Group is discounted to its present value using a discount rate of 7.6% for tenge (2015: 8.8%) and 4.0% (2015: 5.1%) for US dollar obligations. Under the subsoil use agreements, the historical cost payments amortise over a ten year period and commence with first production. In the prior period, licence payment obligations were reflected within provisions due to uncertainty over the timing and amount of payment. In the current year, the level of uncertainty over the timing of payments has decreased following the commencement of production at Bozshakol and Aktogay and licence obligations are now reflected as other liabilities.

### 13. Consolidated cash flow analysis

#### (a) Reconciliation of profit before taxation to net cash inflow from operating activities

\$ million	2016	2015
Profit before taxation	220	12
Interest income	(9)	(9)
Interest expense	45	23
Share-based payments	3	3
Depreciation, amortisation and depletion	84	52
Impairment losses	3	15
Unrealised foreign exchange (gain)/loss	(47)	55
Loss on disposal of assets	–	2
Gain on NFC deferral	–	(16)
<b>Operating cash flows before changes in working capital and provisions</b>	<b>299</b>	<b>137</b>
Increase in non-current VAT receivable	(89)	(105)
Increase in inventories	(47)	(23)
Increase in prepayments and other current assets	(14)	(29)
(Increase)/decrease in trade and other receivables	(38)	74
Increase in employee benefits	2	–
Increase in provision for closure and site restoration	6	1
Increase/(decrease) in trade and other payables	1	(50)
<b>Cash flow from operations before interest and income taxes</b>	<b>120</b>	<b>5</b>

#### Non-cash transactions

There were the following non-cash transactions:

- capitalised depreciation of \$19 million (2015: \$20 million) for property, plant and equipment and mining assets;
- capitalised interest of \$163 million (2015: \$132 million) for property, plant and equipment and mining assets; and
- the reassessment of the provision for closure and site restoration during the year has resulted in an increase of \$25 million (2015: decrease of \$2 million) to property, plant and equipment and \$17 million (2015: \$nil) to mining assets, with a corresponding increase (2015: decrease) in the site restoration and clean up provisions.

#### (b) Cash and cash equivalents

\$ million	2016	2015
Cash deposits with short term initial maturities <sup>1</sup>	820	550
Cash at bank <sup>1</sup>	288	301
	<b>1,108</b>	<b>851</b>

<sup>1</sup> At 31 December 2016, cash and cash equivalents include approximately \$170 million of cash drawn down under the CDB-Aktogay financing facility (2015: \$224 million).

#### (c) Movement in net debt

\$ million	At 1 January 2016	Cash flow	Other movements <sup>1</sup>	At 31 December 2016
Cash and cash equivalents <sup>2</sup>	851	258	(1)	1,108
Current investments <sup>2</sup>	400	(400)	–	–
Borrowings	(3,504)	(273)	–	(3,777)
<b>Net debt</b>	<b>(2,253)</b>	<b>(415)</b>	<b>(1)</b>	<b>(2,669)</b>

\$ million	At 1 January 2015	Cash flow	Other movements <sup>1</sup>	At 31 December 2015
Cash and cash equivalents <sup>2</sup>	1,730	(887)	8	851
Current investments <sup>2</sup>	400	–	–	400
Borrowings	(3,092)	(409)	(3)	(3,504)
<b>Net debt</b>	<b>(962)</b>	<b>(1,296)</b>	<b>5</b>	<b>(2,253)</b>

<sup>1</sup> Other movements comprise net foreign exchange movements, non-cash amortisation of fees on borrowings and other non-cash reconciling items. Other movements on cash and cash equivalents arise primarily from currency movements on non-US dollar cash and cash equivalents. For the year ended 31 December 2016, the \$nil other movement on borrowings consists of \$9 million of amortisation of fees on the Group's financing facilities less \$9 million of foreign exchange differences on the CDB-Aktogay RMB facility. For the year ended 31 December 2015, the \$3 million other movement on borrowings consists of \$11 million of amortisation of fees on the Group's financing facilities less \$8 million of foreign exchange differences on the CDB-Aktogay RMB facility.

<sup>2</sup> Current investments at 31 December 2015 were bank term deposits. At 31 December 2016, all of the Group's gross liquid funds were cash and cash equivalents.

## 14. 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, including Cuprum Holding, are disclosed below.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties <sup>1</sup>	Amounts owed to related parties
<b>Cuprum Holding and related entities</b>				
<b>2016</b>	<b>4</b>	<b>95</b>	<b>2</b>	<b>3</b>
2015 <sup>2</sup>	23	168	14	5

<sup>1</sup> No provision is held against the amounts owed by related parties at 31 December 2016 and 2015. The bad debt expense in relation to related parties was \$nil for the year (2015: \$1 million).

<sup>2</sup> Purchases from related parties include \$28 million of cathode produced by Kazakhmys LLC (part of the Disposal Assets).

### Cuprum Holding and the Disposal Assets

The majority of the related party transactions and balances are with companies which are part of the Cuprum Holding Group (a company owned by Vladimir Kim, a Director of the Company, and Eduard Ogay, a former Director of the Company) and provided under two Framework Service Agreements. These include the provision of smelting and refining of the Group's copper concentrate, electricity supply and certain maintenance functions.

### (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.

## **GLOSSARY**

### **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 operating costs**

all costs included within profit/(loss) before finance items and taxation, net of other operating income, excluding mineral extraction tax, royalties, depreciation, depletion, amortisation and special items

### **CAT facility**

revolving credit facility provided by Caterpillar Financial Services (UK) Limited

### **CDB or China Development Bank**

the China Development Bank Corporation

### **CIT**

corporate income tax

### **CNY**

Chinese yuan, basic unit of renminbi

### **Code or UK Corporate Governance Code**

the UK Corporate Governance Code issued by the Financial Reporting Council

### **Committee or Committees**

any or all of the Audit; Health, Safety and Environment; Remuneration; Nomination; Operations Ramp Up Assurance; and Projects Assurance Committees depending on the context in which the reference is used

### **Company or KAZ Minerals**

KAZ Minerals PLC

### **Cuprum Holding**

Cuprum Netherlands Holding B.V. (now named Kazakhmys Holding Group B.V.), the entity to which the Disposal Assets were transferred

### **DBK**

Development Bank of Kazakhstan

### **Directors**

the Directors of the Company

### **Disposal Assets**

the Disposal Assets comprised the mining, processing, auxiliary, transportation, and heat and power assets of the Group in the Zhezkazgan and Central Regions. The Disposal Assets included 12 copper mines, mine development opportunities, four concentrators, two smelters, two coal mines, and three captive heat and power stations all of which were disposed of as a result of the Restructuring

### **dollar or \$ or US\$**

United States dollars, the currency of the United States of America

### **EBITDA**

earnings before interest, taxation, depreciation, depletion, amortisation, mineral extraction tax and royalties

### **EPS**

earnings per share

### **EPS based on Underlying Profit/(Loss)**

Profit/(loss) 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

**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

**g/t**

grammes per metric tonne

**gross cash cost**

cash operating costs, including pre-commercial production costs, excluding purchased cathode, divided by the volume of own copper cathode equivalent sales

**Gross EBITDA**

earnings, including pre-commercial earnings, before interest, taxation, depreciation, depletion, amortisation, mineral extraction tax and royalties

**Gross Revenues**

sales proceeds from all volumes sold, including pre-commercial production volume

**the Group**

KAZ Minerals PLC and its subsidiary companies

**IAS**

International Accounting Standard

**IASB**

International Accounting Standards Board

**IFRS**

International Financial Reporting Standard

**JORC**

Joint Ore Reserves Committee

**JORC Code**

the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves.

**Kazakhmys Corporation LLC or Kazakhmys LLC**

Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan prior to the Restructuring

**Kazakhstan**

the Republic of Kazakhstan

**koz**

thousand ounces

**kt**

thousand metric tonnes

**Kyrgyzstan**

the Kyrgyz Republic

**lb**

pound, unit of weight

**LBMA**

London Bullion Market Association

**LIBOR**

London Interbank Offered Rate



**Listing**

the listing of the Company's ordinary shares on the London Stock Exchange on 12 October 2005

**LME**

London Metal Exchange

**major growth projects**

Bozshakol and Aktogay

**MET**

mineral extraction tax

**Mt**

million metric tonnes

**net cash costs**

cash operating costs, including pre-commercial production costs, excluding purchased cathode, less by-product Gross Revenues, divided by the volume of own copper cathode equivalent sales

**NFC**

China Non Ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd

**ounce or oz**

a troy ounce, which equates to 31.1035 grammes

**PXF**

pre-export finance debt facility

**\$/t or \$/tonne**

US dollars per metric tonne

**Restructuring**

the transfer, subject to certain consents and approvals, of the Disposal Assets to Cuprum Netherlands Holding B.V. which was approved by shareholders at the General Meeting held on 15 August 2014 and completed on 31 October 2014

**RMB**

Renminbi, the official currency of the People's Republic of China

**Samruk-Kazyna**

Joint Stock Company National Welfare Fund 'Samruk-Kazyna', an entity owned and controlled by the Government of Kazakhstan

**som**

the official currency of Kyrgyzstan

**special items**

those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 5 to the consolidated financial statements

**SX/EW**

solvent extraction and electrowinning, a two-stage metallurgy process used for the extraction of copper

**t**

metric tonnes

**TC/RCs**

treatment charges and refining charges for smelting and refining services

**tenge or KZT**

the official currency of the Republic of Kazakhstan

**UK**

United Kingdom

### **Underlying Profit/(Loss)**

profit/(loss) for the period 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/(Loss) is set out in note 8 to the consolidated financial statements

### **US**

United States of America

### **USc/lb**

US cents per pound