Kazakhmys PLC Annual Report and Accounts 2011

Investment for Growth

KAZAKHMYS

Photo Shotcreting Zhomart

Overview
1

An introduction to Kazakhmys, a summary of the year, our focus on copper, our new corporate structure and where we operate.

Strategic Review
2

The Chairman's Statement gives an overview of our business and the Group's strategy. The Chief Executive's Review details progress over 2011 and provides an outlook for the year ahead. Our strategy details how we deliver value for shareholders. A feature section highlights how we are investing for growth while Key Performance Indicators report on progress against our strategy, followed by a discussion of risks material to the business.

Operating and Financial Review
3

A review of our operations by division and information on our markets. The Financial Review analyses the financial statements.

See more online at www.kazakhmys.com

Kazakhmys is a leading natural resources group focused on the production of copper. We are the only major fully integrated copper producer able to process all of our own ore into finished metal. Based primarily in Kazakhstan, we operate 18 mines along with our own concentrators, smelters and refineries. In addition, we own and operate four power stations, making us the largest provider of electricity in Kazakhstan.

We are growing our business and our $6 billion investment pipeline is one of the largest in Central Asia. We have secured over $4 billion of long-term funding for our major and mid-sized copper projects, investing in our business and our people for the future.

Corporate Responsibility

4

This is a discussion of our approach to Corporate Responsibility, including specific key performance indicators.

Corporate Governance

5

Introducing our Board of Directors, with a discussion of our Governance Framework and Remuneration Policy.

Financial Statements

6

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

Growing value across our business

2011 Highlights

Sound operational and financial performance

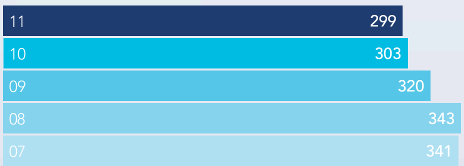
- Met production targets on all principal products, with own copper cathode output of 299 kt
- Steady output and higher metals prices led to improved profitability, with Group EBITDA (excluding special items) increasing 3% to $2,925 million
- In a challenging global cost environment the Group maintained a competitive cost position, with a net cash cost of 114 USc/lb
- Strong cash flows took the balance sheet to a net funds position for the first time since early 2008
- We continue to make good progress with our corporate responsibility objectives, focusing on increased safety training and operational initiatives and improving our environmental performance

Excellent progress on projects

- Bozshakol commenced development
- Aktogay feasibility study started and funding secured of $1.5 billion
- Ekibastuz GRES-1 refurbishment remains on schedule

Copper cathode equivalent production from own material (kt)

299



Earnings per share based on Underlying Profit ($)

2.80

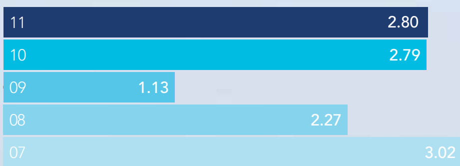
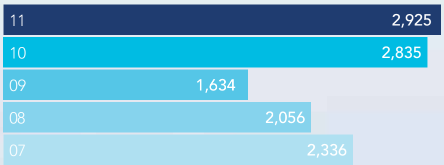


Photo Laying water supply foundations at Bozshakol

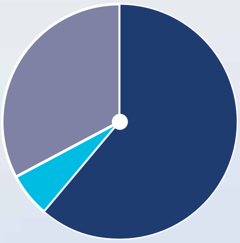
Group EBITDA
(excluding special items) ($ million)

2,925



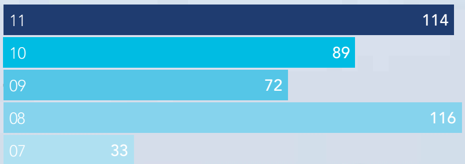
Breakdown of Group EBITDA
(excluding special items) ($ million)

Kazakhmys Mining	1,808
Kazakhmys Power	176
Other	(25)
Share of EBITDA of ENRC	966
Total	**2,925**



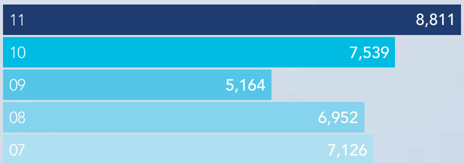
Cash costs of copper after by-product credits (USc/lb)

114



Average LME copper price ($)

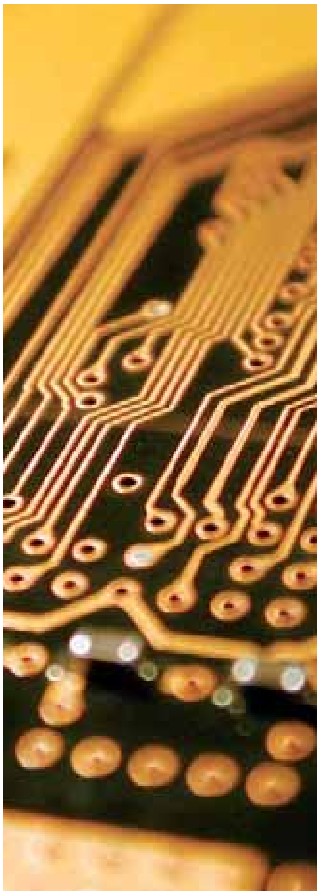
8,811



Focused on copper

The demand for copper is growing. Copper is one of the key metals of modern economic development, found in nearly every new apartment or office block, vehicle and electrical appliance. It is one of the best heat and electricity conductors, is resistant to corrosion and is present in various alloys. Supply remains constrained, and the outlook for copper is positive.

Global copper consumption by market sector 2011



Industrial machinery and equipment

Includes in-plant equipment; industrial valves and fittings; non-electrical instruments; off-road vehicles and heat exchangers.

10%

Transportation equipment

Includes automobile; truck and bus; railroad; marine; aircraft and aerospace.

11%

Consumer and general products

Includes appliances; cord sets; military and commercial ordnance; consumer electronics; fasteners and closures; coinage; utensils and cutlery.

11%

Building and construction

Includes building wire; plumbing and heating; air conditioning and commercial refrigeration; builders' hardware and architectural. The share of construction has been declining due to substitution.

31%

Global refined copper consumption

19,931kt

China's refined copper consumption

7,780kt

Electrical and electronic products

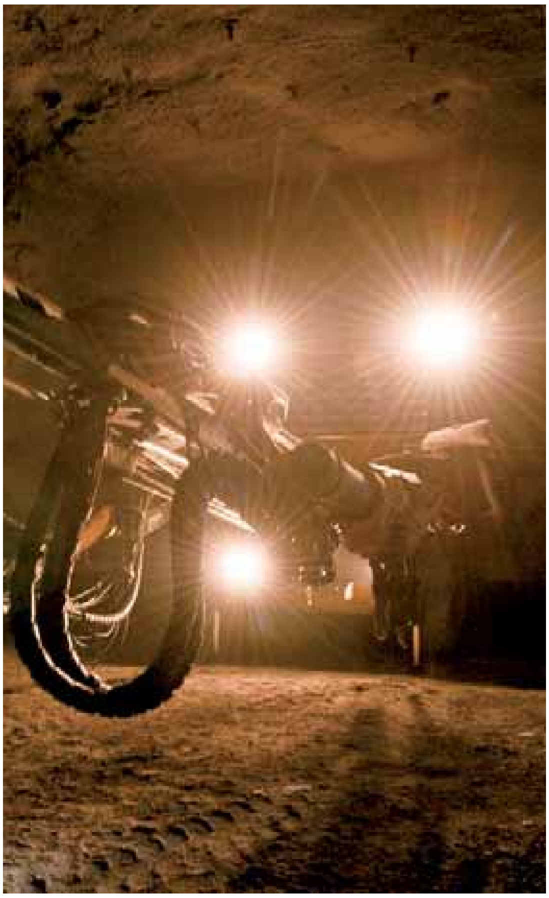
Includes power utilities; telecommunications; business electronics; lighting and wiring devices. This has been the fastest growing area of consumption.

37%

Understanding our business

Kazakhmys is the largest copper producer in Kazakhstan and one of the leading global copper producers. We had a market capitalisation of $7,670 million as at 31 December 2011. Kazakhmys listed in London in October 2005 and our shares can be traded in London, Hong Kong and Kazakhstan. We have a 26% holding in ENRC, another London listed mining company. The holding had a market value of $3,289 million as at 31 December 2011 and contributed $966 million to Group EBITDA.

Mining



Mining and Concentrating

We operate 18 underground and open pit copper mines across Kazakhstan which employ a variety of extraction methods depending upon the mine and geological conditions. In addition to copper, our mines produce significant quantities of zinc, silver and gold, which are sold as by-products, and represent around 25% of our mining revenues.

Smelting and Refining

Kazakhmys has over 400 kt of smelting and refining capacity, enough to process our current output and most of the future output from our growth projects.

Growth

Kazakhmys has two major growth projects: Bozshakol and Aktogay. Aktogay will complete its feasibility study in 2012 and Bozshakol is already in development. The projects are backed by long-term funding of $4.2 billion. These projects will see Kazakhmys' output increasing to over 500 kt in the next six years.

Ore output

33 MT ore annually

Copper grade

1.01%

Mining revenue

$3,548 million

Mining EBITDA

$1,808 million

within Group EBITDA of $2,925 million

Our fully integrated business model

Kazakhmys is the only fully integrated major copper producer in the world. Being integrated gives us security of supply for several key inputs and allows us to exercise control over every stage of the production process. We are a competitive and flexible copper producer, able to serve a variety of end markets. The following processes are all key components of this model:

Coal

We own and operate two coal mines which supply our captive power stations with excess production sold externally.

Power

Our power stations supply heat and electricity to our operations with excess output sold externally.

Mines

Our mines are the heart of our operations, producing copper, along with zinc, gold and silver as by-products.

Power

The Group manages four coal-fired power stations, which together account for over 20% of Kazakhstan's power supply.

Ekibastuz GRES-1

We own 50% of Kazakhstan's largest power station, Ekibastuz GRES-1. The power is mainly sold to industrial users in Kazakhstan under short-term contracts, with around 10% being sold to Russia.

Captive Power

We own and operate three captive power plants which supply heat and electricity to our operations and the surrounding communities. In 2011 around 60% of the output was used internally and the balance was sold to third parties.

Growth

Ekibastuz GRES-1 is currently undergoing a $1 billion refurbishment programme, which will restore the power station to its original 4,000 MW capacity from a current capacity of 2,500 MW. This refurbishment will be completed by 2017.

Net power generation

18,275 GWh

External power sales

83%

of net power generated

Power revenue

$426 million

Power EBITDA

$176 million

within Group EBITDA of $2,925 million

Concentrators

We own 10 concentrators which process crushed ore from our mines into concentrate for further processing at the smelters.

Logistics

We run our own support services which includes infrastructure to transport our material between the Group's facilities.

Refining

Our concentrate is heated in our smelter furnaces to produce copper plates or anodes which are then refined to produce finished copper cathode.

Fabrication

Copper rod is made to order for customers from our cathode.

Ideally positioned to take advantage of the resources of Central Asia

Our operations are based in Kazakhstan, an attractive location for mining. The ninth largest country in the world, Kazakhstan is resource rich and has good infrastructure and a track record of attracting investment and successful development. Kazakhstan is placed between the two largest copper markets, Europe and China.

Kazakhmys' economic contribution

Kazakhmys is one of the largest employers and taxpayers in Kazakhstan. Our revenue represents approximately 2% of the country's gross domestic product and we paid taxes exceeding $780 million. The majority of our 61,000 employees are Kazakhstani citizens, whose taxes and spending contribute to economic growth. We further support economic development by sourcing 50% of our goods and services in Kazakhstan, and by helping local suppliers access finance and build their capabilities.

Number of Kazakhmys employees

61,000 employees

Positioned for growth

China

China is the largest consumer of copper in the world representing 39% of global demand. There are limited copper resources in China and the country imports 79% of its needs. The demand for copper in China has been rising at an average of 14% for the last 20 years. In 2012 China will account for around 80% of Kazakhmys' contracted copper sales, higher than previous years, a trend which is likely to continue as we deliver our growth projects. Kazakhmys is well placed to serve the growing markets of north and western China, which are easily accessed by rail from our facilities.

Europe

Kazakhmys sends copper by rail to Novorossiysk port on the Black Sea from where it is transferred by ship to customers in Turkey and around the Mediterranean region. Typically, customers in Europe account for around 50% of sales, but this will be lower in 2012 given the economic conditions in much of Europe. Sales to Turkey are continuing. Europe is the second largest consumer of copper in the world, accounting for 20% of global demand.

China

39% global copper demand

Europe

20% global copper demand


Russia
Kazakhstan
Bozshakol
Ekibastuz GRES-1
Artemyevsky
Nikolayevsky
Yubileyno-
Snegirikhinsky
Orlovsky
Irtyshsky
Astana
Molodezhny
Nurkazgan
Abyz
Kusheki
Akbastau
Kosmurun
North
West
Stepnoy
East
Annensky
South
Central Region
East Region
Sayak
Aktogay
Konyrat
Zhezkazgan Region
Zhomart
CASPIAN SEA
ARAL SEA
China
Almaty
Shatyrkul
Bozymchak
Kyrgyzstan
Trade routes
Copper and other metals
Coal mines
Power
Growth projects
Mid-sized projects
Mid-sized projects and operating mines

Chairman's Statement

Delivering operational value and growing our business for the future

Kazakhmys enjoyed a positive year in 2011. Our strategy, based on optimising our existing assets, delivering our growth projects and taking advantage of opportunities to diversify our assets, remains relevant and a sound base for our business.

Steady production and increased metal prices led to rising profitability and cash flows, placing us in a strong position for future growth and development.

Summary for 2011 financial year

The year was characterised by heightened concerns over the health of the global economy and its impact on financial markets. A slight sense of optimism prevailed at the beginning of 2011, but during the second and third quarters, this was overtaken by the 'Eurozone' crisis, doubts about the sustainability of the recovery in the US and the extent of the slowdown in China. There was inevitably speculation as to how weakness in each area of the global economy might impact other parts and lead to a spiralling decline.

Towards the end of 2011, the US was starting to show some tentative signs of recovery and China appeared to be avoiding a hard landing. However, the financial issues in Europe remain far from resolved and are likely to continue for some time.

The movement and volatility of financial markets in 2011 reflected the underlying concerns arising from these economic events. The world of copper, however, was more stable than this background might suggest.

Copper started the year at $9,754 per tonne and in February rose to an all-time high of $10,148 per tonne. Concerns around economic growth in the global economy brought the price down during the year, to a low of $6,785 per tonne in October. The price then started to recover and closed the year at $7,554 per tonne. These prices should be seen in contrast to a low of $2,770 per tonne following the global financial crisis of 2008 and 2009. Despite the economic uncertainties and their resulting impact on the copper price, our average realised price in 2011, at $8,756 per tonne, was still 16% higher than in 2010.

Some of the strength in copper pricing was due to US dollar weakness arising from the Federal Reserve Bank's policy of quantitative easing, but it was also because copper is a highly attractive metal. Supply of copper is tight, new deposits are difficult to exploit, and copper is fundamental to economic development.

In 2011, our copper shipments were all delivered in accordance with our contracts which were signed at the end of 2010, with no issues arising from lack of demand or decreased availability of customer credit. Consistent with previous years, our sales contracts for 2012 have already been completed, on broadly similar pricing terms to 2011. In 2012, a greater proportion of our material will be sold to customers in China, and less directed to Europe. This trend is likely to continue, especially as our output increases with the delivery of our two major growth projects.

Production of copper in 2011 was similar to the previous year, and steady output combined with higher pricing and a strong contribution from ENRC led to a 3% increase in Group EBITDA (excluding special items) to $2,925 million. This increase is a positive outcome given the economic background and the cost pressures faced by the business.

The strategy, set by the Board, continues to be based on optimising our existing assets, delivering our growth projects and taking advantage of opportunities to diversify our assets principally within the Central Asian region. We have again made good progress during 2011, particularly with our growth projects, where we are creating some important opportunities for the future of the Group.

Optimisation

Improving the efficiency of our current operations is a key focus for the Board and management. Cost inflation, which I highlighted last year, remains an issue across the mining industry and, in common with most of the other larger copper producers, we are suffering from a decline in ore grade. We have to continue to improve working practices and cost management at our existing assets in order to protect our profit margins and remain competitive.

We have adjusted the structure of the Group along functional rather than geographic lines, and are making changes in a wide range of operating areas to improve efficiency. We have also made some new senior level appointments which are having a positive impact on the performance of the business. A number of long-term programmes with significant potential are underway, but as with other optimisation programmes, we also face challenges in ensuring they are implemented effectively across the business.

"We made excellent progress on our growth projects during 2011. Bozshakol started its development phase in August 2011, and the $1.8 billion project remains on track for first production of concentrate in 2015."

The focus on our core business has been assisted by the disposal of the Maikuben West coal mine and our petroleum asset. We are continuing to actively pursue the disposal of MKM.

Growth projects
We made excellent progress on our growth projects during 2011. Bozshakol started its development phase in August 2011, and the $1.8 billion project remains on track for first production of concentrate in 2015. At the same time, the feasibility study for Aktogay was commenced with a completion date expected by the end of 2012, with anticipated first production in 2016. In December 2011, we signed our second loan agreement with China Development Bank for $1.5 billion which will be used for the development of Aktogay.

Ensuring safety is at the core of what we do

At Kazakhmys, improving our health and safety performance is a priority. As a leading mining business, focusing on safety is of critical importance and will bring us improved operational performance, as well as health and safety gains for our employees. Senior management are directly involved in the investigation and conclusion of any major incident, and the HSE Committee reviews serious incident investigations and follow up actions. In 2012, health and safety will remain the first item on the agenda of all Board and Executive Committee meetings.

We have taken a number of actions over the past year to improve our performance. Some of our key achievements include:

- Delivering intensive, bespoke training in health and safety management to 440 managers
- 1,850 internal site inspections
- Zero fatalities at our shaft sinking department, which had seen 10 fatalities in 2009 and three in 2010
- Developed a more thorough set of 35 Group health and safety standards for the areas where most incidents occur

Lost time injury frequency rate (direct employees)	Average hours of health and safety training received by almost 26,000 employees
1.55	41hrs

Including the capacity expansion at the Ekibastuz power station, we are managing around $6 billion of capital investment, the largest programme in Kazakhstan. Our aim is to take our copper production from 300 kt to 500 kt over the medium term. We are also making good progress on our exploration programme and the development of our mid-sized projects, which will help to replace our reserves and secure our output in the long term.

Diversification and ENRC holding

We continue to look for opportunities to diversify our asset base with a focus on the region around Central Asia, where we believe we have a competitive advantage.

We are the largest shareholder in ENRC, with a holding of 26%, which had a market value of $3,289 million at the end of 2011, and which has since increased in value to $3,328 million as at 26 March 2012.

During 2010, ENRC purchased some copper assets in central Africa, which offer significant potential although they come with the operating challenges typical of that area. The recent agreement with First Quantum appeared to bring some welcome resolution to the disputes that have overshadowed the transaction. There have also been changes to the ENRC board which we believe will assist us in maintaining good relationships at all levels within ENRC.

The ENRC holding provides diversification of earnings through ENRC's exposure to bulk materials and broadens our strategic opportunities. The Board's objective is to maximise the value of this investment for all shareholders.

Power Division

The major asset in our Power Division is Ekibastuz GRES-1, the largest power station in Kazakhstan. We jointly own Ekibastuz GRES-1 with Samruk-Kazyna. Ekibastuz GRES-1 again performed well in 2011, assisted by a combination of rising tariffs and increased demand.

The cash flow generated by Ekibastuz GRES-1 is being used to fund a major restoration programme, which will return the power station back to its original capacity of 4,000 MW and improve its environmental performance. This programme is ahead of its original timetable, and one of the three new units should be commissioned by the end of 2012. The overall refurbishment of the power station should be complete by the end of 2016.

Our three captive power stations are now separated from the Mining Division and are managed alongside Ekibastuz GRES-1. We will be seeking to improve their efficiency and share best working practices amongst all four power stations in our portfolio. Power generation in Kazakhstan is an attractive business, and having security of power for our current and future operations has strong strategic attractions.

Health, safety and environment

In 2011 the Group reported 24 fatalities, which is clearly unacceptable. The fatality number has reduced from 32 in 2010, and I believe that we are making progress in the management of health and safety, but the Board remains committed to zero fatalities. As I have mentioned previously, safety is seen as a key indicator of successful operational management and an improvement in safety has to be led by management. We have continued to make some important health and safety personnel appointments, and we are implementing major initiatives across the business addressing some deep seated cultural issues which need changing. The Board requires further significant improvement in health and safety, believing that fatalities are both unacceptable and avoidable.

A major part of our development programme is directed towards environmental improvements, with investments at our power plants and copper processing facilities. Some of our assets have been operating for over 70 years, and ongoing investment will be required to deal with legacy issues and meet rising environmental standards.

Kazakhstan and social responsibility

Kazakhmys plays a major part in the life of Kazakhstan. We employ around 60,000 people and our revenues represent around 2% of Kazakhstan's GDP. Kazakhmys has one of the largest social programmes in Kazakhstan, mainly supporting our workers and the communities around our operations. In 2011 we incurred just under $80 million on social funding. The structure of our social payments is changing, and is increasingly centred on formal regional agreements with local authorities. We will continue to have significant social commitments but equally the approach is likely to evolve as Kazakhstan, which celebrated the 20th anniversary of its independence in December 2011, develops and matures.

Kazakhstan has changed much in its first 20 years, but it has consistently provided a stable base for companies, welcoming domestic and foreign investment which has helped secure the ongoing development of the economy. The size and success of the oil industry sometimes places pressure on cost inflation, particularly labour, but Kazakhstan remains an attractive place to operate and expand.

> "We have a strong track record of delivering cash returns to shareholders and total cash returns since Listing will be $1,663 million."

The Board and corporate governance

In May 2011, Peter Hickson retired from the Board and I should like to thank him for his assistance, particularly on matters relating to our power assets, where he had significant industry experience. Charles Watson joined the Board in August 2011. In addition to his extensive experience in extractive industries in the region, Charles brings a considerable knowledge of project engineering, which will be useful in the development of our growth projects.

Kazakhmys has a Board with exceptional depth and ability and each of the Directors has experience which is relevant to our activities. An increasing area of focus for the Board is in reviewing risk management and in ensuring that the Group has appropriate and effective measures and internal controls in place. The quality of the Board ensures healthy discussion and challenge on key issues, with full regard to protecting the interests of all shareholders.

Our non-executive Directors are generous with their time and input, both to the Board and to its various committees. In addition to scheduled Board meetings and discussions of the Group's results and strategy, the Board members visit operating sites and local offices in Kazakhstan. These visits assist both the Board's understanding of the business and operational management's understanding of the Board's role. I should like to thank the Board members for their invaluable assistance and commitment.

The Board has a majority of independent Directors, but we do not currently have any female Directors. We always take account of diversity when we consider our Board appointments, and will continue to do so in the future. Whilst we see a significant business benefit in having a Board drawn from a diverse range of backgrounds that brings the required expertise, cultural diversity and different perspectives to Board discussions, we do not believe this is achieved through simple quotas, whether gender or otherwise. Our criteria for selecting Directors have been solely based on the desire to obtain individuals with significant commercial experience relevant to our business. We will continue to be driven by professional need and merit in our selection in accordance with the requirements of the UK Corporate Governance Code.

Hong Kong listing

In June 2011 we completed our secondary listing on the Hong Kong Stock Exchange. As mentioned last year, we believe that a more visible presence in the region could be important for the future development of the Group and may open up additional opportunities to us.

As mentioned above, in December 2011 we secured our second loan from the China Development Bank. We now have $4.2 billion of long-term and competitively priced funding from the China Development Bank, which will be used mainly for our Bozshakol and Aktogay growth projects. These developments show the importance of the region to our growth and over the long term China is likely to take an increasing share of our sales.

Dividends and shareholder returns

Our dividend policy is to consider the cash generation and requirements of the business and then recommend a suitable dividend. This policy maintains flexibility on dividend payments, which is appropriate given the cyclical nature of a commodity business. We are entering a critical stage in the development of our growth projects and with $6 billion of capital expenditure over the next few years, we will retain a conservative approach to the management of our balance sheet and distributions of cash.

In September 2011, we commenced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. To date, we have purchased $110 million, or 1.4% of the shares that were in issue at the start of the buy-back, at an average price of 904 pence per share. The authority for this share buy-back programme expires in May 2012. The Board is mindful of the impact of a share buy-back on the free float and trading liquidity and it is unlikely that this buy-back programme will be completed.

The Directors recommend the payment of a final dividend of 20.0 US cents per share or $106 million. This payment, together with the interim dividend of 8.0 US cents per share, represents 28.0 US cents per share, or $149 million for the year as a whole. In 2010, the full year dividend was 22.0 US cents per share or $118 million.

The final dividend has been increased by 27% from 2010, benefiting from the cash generated by the business and the strength of the balance sheet. The level of the final dividend also reflects the cash retained by not completing the share buy-back programme. In keeping with our flexible dividend policy, the Board may seek to moderate this payout level as our capital expenditure significantly increases on our projects.

Although we have a flexible dividend policy, cash returns to shareholders since our Listing in 2005 relative to market capitalisation have been amongst the highest of any listed mining company. Including the recommended final dividend, total returns to shareholders since our Listing in 2005 will be $1,663 million, compared to $491 million raised at the time of Listing.

Outlook

Copper is an attractive metal, with the structural challenges of supply outweighing shorter-term fluctuations in demand. I believe that our strategy allows us both to meet the challenges in the industry and to take advantage of opportunities. We have a strong track record of delivering cash returns to shareholders and providing strong support to employees and other stakeholders, which is a reputation we wish to maintain. With funding for our projects in place and our proximity to the largest and growing end-market, the outlook for Kazakhmys remains positive.

Vladimir Kim
Chairman

Translating action into results across all operations

In 2011, we met all our main production targets for the fourth year running. Kazakhmys is one of the few major copper producers to report such an achievement.

Summary of results

For the fourth consecutive year we have met all of our main production targets. Kazakhmys is one of the few major copper producers to report such an achievement, which demonstrates the challenges facing the copper industry as much as our success.

All our production must be safe production. Providing a safe workplace for our employees is an obligation for me and all my fellow managers. Zero fatalities must be at the core of our actions and planning and, although I believe that we have made progress on health and safety during the year, there is much more still to do. Training remains an important part of this process but the lead comes from management.

In 2011 our specific challenge was grade decline, which we were partially able to offset through increased ore output. We made significant progress on our growth projects and we continue to move forwards with our optimisation programme.

The average realised sales price for copper rose by 16% compared to 2010 to $8,756 per tonne. The increase in price offset the decline in volumes sold and Group revenues from continuing operations increased 10% to $3,563 million.

We suggested at the start of 2011 that costs would be a significant pressure on the business. Production costs, excluding special items, rose 18%, impacted by input prices, labour rates and the effect of declining grades, which led to higher ore volumes and lower recovery rates. Rising metal prices and a higher contribution from the Power Division more than offset this cost pressure, and Segmental EBITDA (excluding special items) was $1,959 million, an increase of $27 million compared to 2010. The EBITDA margin at our core mining business remained robust at 52%.

Including the 26% share of ENRC's results, Group EBITDA (excluding special items) was $2,925 million, 3% ahead of the previous year. EPS based on Underlying Profit of the Group in 2011 was $2.80 per share, compared to $2.79 per share in 2010.

Mining Division

Results for 2011

Copper cathode production from own concentrate for the 12 months of 2011 was 299 kt, just 2% below the previous year. The decline was principally due to the reduction in ore grade, from 1.09% to 1.01%, partially offset by a 2% increase in ore volumes. During 2011, there was also some contribution from the processing of material built up at the smelters during 2010.

Sales volumes of copper cathode equivalent were 293 kt, a reduction of 7% from the previous year. In 2010 there were some sales from inventory, whereas in 2011 there was a modest replacement of inventory to more normal levels.

The lower level of sales was offset by the increase in copper prices, set out above, so that revenues from copper based products were $2,570 million, an increase of $186 million against the previous year.

By-product production was in line with the targets we had set at the beginning of the year. By-product revenues were 21% of total revenue, a similar level to previous years. The average market price for gold and silver increased by 28% and 75%, respectively, which offset reductions in sales volumes across all three main by-products. Silver dominates by-product sales with revenues at $479 million.

Silver production declined 7% to 13,137 koz, due to declining grades at the mature Zhezkazgan mines, although production of silver was significantly ahead of our expectations set at the start of 2011. Sales of silver were relatively unchanged, benefiting from a release of material which offset the lower production volumes. Zinc production reduced by 17% with a decline in both the volume of zinc bearing ore and grade. The volume of zinc sales followed the decline in production.

In mid-2011 we announced that the National Bank wished to purchase precious metals to hold in reserve and ongoing sales had been disrupted by the negotiations. The Group resumed export sales of silver and gold doré in the third quarter of 2011, but had stockpiled 69 koz of gold bar by the year end, with an approximate value of $122 million at prices prevailing at the end of February 2012. Negotiations are continuing with the National Bank regarding their purchasing of gold bar but we anticipate the National Bank will be purchasing the stockpiled material during the first half of 2012 at market prices.

The calculation of unit costs in 2011 and comparison to previous years is complicated by the disruption to gold sales. Gross cash costs increased from 203 USc/lb to 249 USc/lb, reflecting the cost pressures mentioned above and the impact of spreading fixed costs across a lower sales volume. Net cash costs were 114 USc/lb, compared to 89 USc/lb in 2010, as more favourable by-product pricing helped partially offset the increase in gross costs. Had the stockpiled gold been sold at year end prices, then the net cash cost would have been 108 USc/lb, resulting in Kazakhmys maintaining its competitive position on the global cash cost curve.

> “Including the 26% share of ENRC’s results, Group EBITDA (excluding special items) was $2,925 million, 3% ahead of the previous year.”

Optimisation and restructuring

Kazakhmys operations were previously managed on a regional basis, reflecting the historic development of the Group. This structure was changed significantly in 2011 and operations are now managed by function, in line with standard international practice. The power assets have been merged into a single division, such that the three captive power plants and Ekibastuz GRES-1 power are managed by the same team. The mining assets of the former Gold Division have also been absorbed into the Mining Division. The smelting and refining assets at Zhezkazgan and Balkhash are now managed together by a single specialist team within the Mining Division.

Our new corporate structure

The aim of this restructuring is to improve efficiencies, by forcing each function to recognise and manage its own profitability. Procurement of major items has been centralised and we continue to work on raising efficiency of both procurement and the maintenance of our plant and equipment. We have selectively outsourced activities, including some transportation and ancillary services.

During the next stage of our optimisation we are likely to see increasing investment in IT, initially around infrastructure and capacity, which will allow us to collect data more accurately and make better informed management decisions. This investment programme will also include procurement of improved mine planning and asset management systems.

Optimisation of our existing assets is a key management focus, made even more significant by the pressure from declining grade and rising input prices. We believe there are also further opportunities to improve the performance of our concentrators, both to raise throughput and increase recovery rates.

We will continue to invest in improving working environments, which covers a range of activities including staff transportation, additional roof bolting, shotcreting and improved in-pit equipment maintenance areas, which should ultimately assist productivity and health and safety.

Sales

In previous years, we have typically arranged off-take agreements for up to 90% of our anticipated production each year, evenly split between customers in Europe and China. The balance of around 10% is held for spot sales during the year. In 2012 there will be a higher level of sales to China as, with the exception of sales to our Turkish customers, there are limited sales being directed to Europe.

All of the sales agreements for 2012 were completed by the end of 2011 which is consistent timing with previous years. Premiums for copper products were comparable with 2011, although higher than 2010, which indicates good demand for our material.

Chief Executive's Review – continued

The majority of our silver will be sold to Chinese customers in 2012, with gold sales being made to the National Bank. Zinc concentrate will continue to be sold to a mix of local and Chinese customers for further processing.

Our customers have traded with us for many years and I should like to thank them for their support. We look forward to continuing to work with them in the future.

Outlook

Copper production in 2012 is forecast to be at a similar level to 2011. Copper ore grades will decline at a similar rate to that seen in 2011. After 2012 we do not anticipate further significant declines in grade in the medium term. With 18 operating copper mines of differing grade, the overall average grade will be influenced by increases in production from mines at either end of the grade scale.

Ore volumes will be increased to offset the grade decline, but maintaining constant output will be challenging and places pressure on operating costs with an impact on several areas, including equipment maintenance, transportation costs, fuel usage and lower recovery rates. These pressures are common issues across the copper mining industry.

Labour inflation is likely to remain an issue in 2012. Kazakhstan has a small workforce of skilled employees and with the size and success of the oil industry, we have previously experienced periods of rising labour rates. We are also likely to see an increase in tariffs on emissions as the Government raises environmental taxes within the country.

During 2012 we should see a ramp-up in production at Nurkazgan mine, a full year of production at Akbastau mine and a potential increase in output from Zhomart mine. These mines are all relatively high grade, but these increases will be offset by higher output from the low grade Konyrat mine.

For 2012 we anticipate silver production of 12,000 koz, which is in line with the initial target we had set at the beginning of 2011. Zinc output should increase slightly from 140 kt. Gold output will decline slightly to 120 koz, with minimal production from stockpiled material at the Central Mukur mine, formerly within the closed Kazakhmys Gold Division.

Sustaining capital expenditure in 2011 was $379 million, which may increase slightly in 2012 with further investment being made to handle additional ore volumes, and to implement a number of IT, health and safety and working environment initiatives.

Power Division

Results for 2011

The main asset within the Power Division is the Ekibastuz GRES-1 power station, jointly owned with Samruk-Kazyna. Net power generation at Ekibastuz GRES-1 was ahead of the target we set at the beginning of the year at 12,697 GWh, a 15% increase compared to 2010 generation levels. Generation was assisted by a full year of sales to Russia, which in 2010 commenced only in June. Domestic sales increased by a healthy 12%, due to continuing economic growth in Kazakhstan.

The average realised tariff rose 20% to 5.38 KZT/kWh. Domestic sales had an average realised tariff of 5.48 KZT/kWh, just below the regulated ceiling tariff of 5.60 KZT/kWh. Sales to Russian customers, based on a different pricing formula, tend to be slightly below the domestic tariff. The domestic ceiling tariff is expected to remain at current levels during the first quarter of 2012, as agreed with the Ministry of Industry and New Technologies.

The net generation from the three captive power plants was 5,578 GWh of electricity in 2011, of which around 40% was sold to external customers.

Higher sales volumes and improved pricing assisted profitability, more than offsetting the 11% increase in coal prices. EBITDA (before special items) increased 16% to $176 million, reflecting these positive factors.

Outlook

Ekibastuz GRES-1 consists of eight units, of which five are currently in operation. The plant is undergoing a $1 billion investment programme, funded from the internal cash flows of the power station, which will restore the three non-operational units and allow environmental upgrades. The commissioning of the sixth unit remains on track for the end of 2012. The seventh unit will be commissioned by the end of 2014 and the last non-operational unit by the end of 2016. This programme will return the power station to its original nameplate capacity of 4,000 MW from a current capacity of 2,500 MW.

> "Net power generation at Ekibastuz GRES-1 was ahead of the target we set at the beginning of the year at 12,697 GWh, a 15% increase compared to 2010 generation levels."

During 2011, around $200 million was spent on the capital investment programme, principally the two new units undergoing refurbishment and the scheduled overhaul of two operational units. During 2012, total capital expenditure is likely to be in the region of $300 million, of which $160 million will be spent on the same two new units and the completion of scheduled overhaul at one operational unit and commencement at a second.

We are undertaking a strategic review of our captive power plants. They are critical for the operation of our mining business and play an important role in supplying heat and power to the surrounding communities, but some of the assets are old and in need of significant refurbishment. We have to ensure that these power stations are correctly configured for the future development of the Group, the needs of the neighbouring population and their environmental impact.

The market in Kazakhstan is likely to remain in short supply of power and requires substantial capital investment to meet rising demand, together with the need to refurbish ageing assets. Over the medium term these factors will support rising tariffs in order to attract investment, and although tariffs have risen, they remain low compared to most countries. A significant part of Kazakhstan's power supply is used in the production of bulk metals, and in the event of a reduction in bulk metal output, as experienced at the start of 2009, there could be occasional excess power supply. It is anticipated that Ekibastuz GRES-1 will have another successful year in 2012 and generate just under 13,000 GWh.

ENRC

Our 26% holding of ENRC had a market value of $3,328 million at 26 March 2012. The contribution to Group EBITDA (excluding special items) from our 26% share of ENRC's EBITDA was $966 million, an increase of $63 million compared to 2010.

The increase in contribution from ENRC to the Group's earnings was driven by similar factors to those seen at Kazakhmys. Rising commodity prices led to a 17% increase in revenue, though this was partly offset by a 24% increase in cost of sales with pressure from inflation and input prices. The Iron Ore and Ferroalloys Divisions are a core part of the ENRC business, contributing 80% of ENRC's EBITDA (before special items). Both divisions enjoy a competitive advantage as low cost producers compared to their peers. The Group's share of profits from ENRC reduced by 11% to $466 million as in 2010 ENRC benefited from a one-off gain arising from the acquisition of a joint venture.

Disposals and assets held for sale

In May 2011 we completed the disposal of the small Maikuben West coal mine. Maikuben West was acquired in 2008, along with the Ekibastuz GRES-1 power station. Ekibastuz GRES-1 sources most of its coal from the Bogatyr mine, which is 50% owned by Samruk-Kazyna, our joint venture partner at Ekibastuz GRES-1, and thus Maikuben West was surplus to our requirements.

At the beginning of 2011, I stated that over the course of the year we should be in a position to assess the economic value of our Petroleum Division and consider the best way to progress this asset. The required capital investment for developing the field over the next few years was significant and we believed that the funds would be better focused on our core copper business. In July 2011 the decision was taken to sell the asset and this transaction was completed in December 2011. The Division was sold for net proceeds of $100 million but with contingent consideration in the form of potential royalties of up to $476 million, dependent upon future oil revenues.

MKM, a downstream copper processing business in Germany, was acquired in 2004 before our Listing. MKM was classified as an asset held for sale in 2009 as it did not fit with our strategy of investing in natural resources opportunities in Central Asia. We are continuing to talk to several parties about its disposal. The progress of discussions has not been assisted by the economic problems in the Eurozone and the availability of financing to potential European purchasers.
MKM performed well, despite the economic climate, achieving record underlying financial results. In 2011, we received a dividend of €10 million and anticipate receiving further dividends in 2012, reflecting the underlying strength of this business.

Reporting back on our 2010 priorities

Operating efficiently and responsibly

We have continued to focus on health and safety and to encourage the basic principle that safe production is the first sign of sound management. This focus is part of our operational approach and is discussed throughout this Annual Report and Accounts, but specifically on pages 80 to 82.

Our corporate restructuring should assist our efficiency improvements and was completed during 2011.

We also reported last year the development of our mid-term mine planning, which remains in progress.

Progressing our project pipeline

We made excellent progress on our projects in 2011, with Bozshakol moving into development and Aktogay commencing its feasibility study. As can be seen from our Key Performance Indicators on pages 32 and 33, we now have 11 projects under consideration, from scoping study to development. This is a notable increase from 2010.

Connected to our project pipeline is the work of our exploration team, seeking to expand our reserves for future exploitation. We spent $41 million on exploration in Kazakhstan in 2011 and will double this level of expenditure in 2012.

Creating efficient services

In 2011 we completed the establishment of our 'Trade House' to centralise procurement and we progressed with some selective outsourcing of services. We continue to work on improving efficiency in equipment maintenance, which is a long-term programme.

Expanding power to meet demand

The pace of development at the Ekibastuz GRES-1 power station has been maintained in 2011 with the major reconstruction of one of the dormant units being on track for completion in 2012. A second electrostatic precipitator was installed in 2011 which will further assist efficiency and reduce emissions. The investment programme at Ekibastuz GRES-1 will be completed by 2017.

Funding

The Group has a strong funding position, which will enable us to deliver our growth projects and to consider a wide range of corporate opportunities. When looking at our balance sheet we are mindful, however, that we have a high level of capital expenditure over the next four years.

Our balance sheet has again been assisted by positive metals prices during 2011, and at the end of the year, returned to a net funds position for the first time since early 2008.

We have available revolving credit facilities of $300 million and a financing line of $2.7 billion, agreed in December 2009 with the China Development Bank and Samruk-Kazyna, for Bozshakol and our mid-sized projects. In December 2011, we signed a second facility with the China Development Bank for $1.5 billion, which is to be used for the development of the Aktogay project. The Group now has $4.2 billion of long-term funding to be used for our major and mid-sized projects. We have developed an excellent relationship with the China Development Bank and I would like to thank them for their support.

We continue to pay down our central pre-export credit facility at a rate of $44 million per month, and this facility will be repaid by February 2013. After this facility is repaid there will be a positive impact on the cash flows available to the Group.

Our balance sheet is also strengthened by our 26% holding in ENRC.

Copper growth projects and exploration

We continue to make good progress with our growth projects, which should take production from a current level of 300 kt to 500 kt over the next six years.

In August 2011, Bozshakol completed its feasibility study and immediately moved into development, with the appointment of Alarko as principal contractor. Basic construction and infrastructure work has already started and during 2012 this work will continue along with the delivery of some major items of equipment. This timing is ahead of the schedule set last year, when we anticipated commencing development in 2012. We remain on track to produce first concentrate in 2015. In 2012 we will spend around $500 million on the Bozshakol project, rising from around $120 million in 2011. The spending will include major construction work starting by the third quarter of 2012.

The feasibility study for Aktogay was commenced in August 2011 with Ausenco appointed as the study contractor. The study is expected to complete by the end of 2012. This schedule will allow first ore to be produced from the main sulphide part of Aktogay in 2016. The similarities in the size and composition of the sulphide ore body to that at Bozshakol should allow for efficiencies in the planning and development of Aktogay. It is likely that the smaller oxide portion will be commissioned before production of the first concentrate from the main sulphide ore body. As mentioned above, funding for the project was secured at the end of 2011. The long-lead items for Aktogay have been ordered.

"We continue to make good progress with our growth projects, which should take production from a current level of 300 kt to 500 kt over the next six years."

We continue to progress with our drilling and technical studies at several mid-sized projects. This programme includes the development of mines and construction of a new concentrator at Kosmurun-Akbastau, the second stage of development at the Zhomart mine, a potential expansion at Nurkazgan mine and a new development at Anisimov Klyuch. These projects are at an early stage but they have the resource to potentially produce large volumes of copper ore with good by-products. Bozymchak should complete its development in 2012, with first concentrate in 2013.

In 2011 we spent $41 million on our exploration programme with much of the programme focused around the existing operations, where we see significant potential for future expansion. The expenditure was lower than estimated at the start of the year as the availability of external assaying services slowed our drilling programme. We anticipate doubling our exploration expenditure in 2012, provided we can raise the volume of material to be tested which may include increasing assaying capacities in Kazakhstan. We believe this is the largest exploration programme of its kind in Kazakhstan.

Employees and communities

The Group is one of the largest employers in Kazakhstan, with around 60,000 employees. The success of Kazakhmys is dependent upon the efforts of our staff and I should like to thank them for their input over the past year and their work in taking the Group forward.

The first responsibility of management is the welfare of the workforce. Our health and safety record is still unacceptable but we have made progress in the management of health and safety during 2011, and the commitment and leadership of our Chief Operating Officer, Sergei Diachenko, to improve health and safety is apparent to all and to be commended. We will continue to develop our training programmes for safety, which remain a key part of changing the culture and working practices within the Group.

Kazakhmys plays a significant role in the communities in which we operate. Our involvement is greater than is seen amongst other international mining companies. This commitment is partly a result of our historical development as many of the towns adjacent to our operations were built to serve our operations. These relationships will evolve, but we will retain a close link and sense of responsibility to those around us for the foreseeable future. In 2011 our social spending has included maintenance of infrastructure and facilities in neighbouring communities, along with one-off projects such as relief for flood victims in east Kazakhstan, and building new sports and education facilities at several sites.

Summary

In 2012 we should be able to maintain steady production, despite an expected reduction in copper ore grades. Demand for our products remains strong with higher levels of sales expected to be directed to China. We will continue to focus on our cost base and the efficient management of our existing assets to provide protection in an inflationary environment. We are a step closer to delivering our growth projects and the next few years will be an exciting period for the Group. The timely delivery of these growth projects is a critical priority for us. Of course, in all of our work during 2012 we will seek to continue our improvements in health and safety.

Oleg Novachuk
Chief Executive

Delivering a strategy for future growth

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

Our vision

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

Our objectives

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

Our strategy

Optimise existing assets

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

Deliver growth projects

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

Take advantage of natural resource opportunities

We will actively seek out and acquire attractive, undeveloped natural resource assets principally in the Central Asian region. This will be achieved through exploration and by acquiring known assets.

Corporate responsibility

Our objectives include a balanced recognition of all key stakeholders. The growth of our business should benefit our shareholders and enhance the social and economic development of the communities where we operate.

Kazakhmys employs over 60,000 workers and runs the largest social programme in Kazakhstan, reflecting the close and historic links with the communities serving our operations.

A Corporate Responsibility Report commencing on page 76 includes key performance indicators.

Risk management

The Group has a structured approach to managing risk. Those significant risks that could materially affect the Group's financial condition, performance, strategy and prospects are set out on pages 34 to 37.

Key performance indicators

The Board has established a range of eight key performance indicators which have been chosen for their relevance to our strategy and risks. These are set out on pages 32 and 33.

Delivering long-term investment for growth

We are investing in our business. Our investment pipeline of around $6 billion is the largest development programme in Kazakhstan outside the oil industry, and is focused on five key areas: delivering our major projects of Bozshakol and Aktogay; developing mid-sized growth projects; improving capacity in our power business; continuing to expand our future project pipeline; and investing in our people and communities.

In this section, we illustrate the components of our investment strategy:

Delivering
major growth projects

Developing
mid-sized growth projects

Increasing
capacity to generate power

Ensuring
future growth through exploration

Investing
in people and communities

Investment for Growth

Delivering major growth projects

2011 has been a key year for Kazakhmys, with the Group taking significant steps in the development of our major growth projects. We plan to increase our production by over 50% in the next six years and our major projects at Bozshakol and Aktogay will be key to meeting this goal. Both projects are long-life, low-risk copper projects which offer substantial growth and value for our business.

Bozshakol project timeline

2011
Commenced three year development

2012
Commence main construction activities on site

We have a zero harm policy

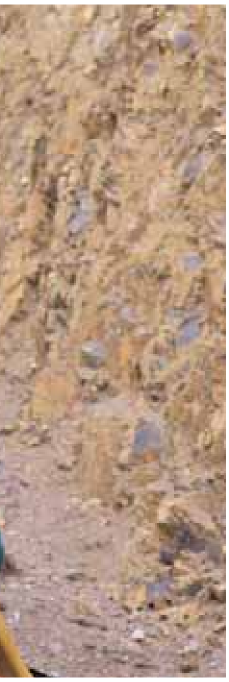
Bozshakol is an important project for Kazakhmys and the mining industry in Kazakhstan, employing around 1,500 people at peak construction in the development stage, and slightly over 1,500 people when operational.

We have a 'Zero Harm' policy at Bozshakol with a focus on personnel, assets and the environment. This will be achieved through a rigorous training schedule. All personnel will receive specific job and safety training prior to entering their workplace. A policy of continuous improvement for all employees will ensure that safety and job training will maintain their skill levels to international standards throughout the entire duration of the project's development.

2013
Long-lead items arrive on site

2014
Pre-production mining

2015
First ore to mills



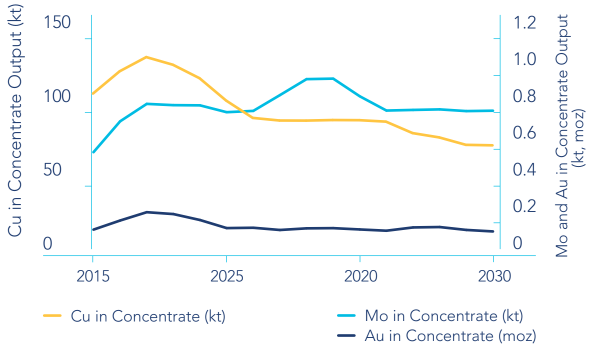
Bozshakol – delivering transformational growth

Located in northern Kazakhstan, Bozshakol is a greenfield development project and one of the largest undeveloped deposits in the world. The project is close to existing power, transportation and other infrastructure and will have a highly competitive operating cost.

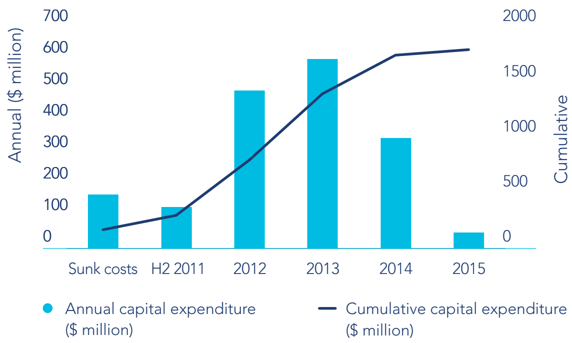
Our three year development phase for Bozshakol began in 2011, and is the largest single mine development in Kazakhstan by both volume and value. The mine will provide transformational growth equivalent to a third of our current production, delivering an annual copper output estimated at 75 kt over 40 years, and employing around 1,500 people. The ore body also contains highly valuable by-products of gold and molybdenum.

The development phase began slightly ahead of schedule, with pre-production mining set to begin in 2014 and first ore processed during 2015. The project has a capital cost in the region of $1.8 billion, and is being funded from a $2.7 billion financing facility provided by the China Development Bank and Samruk-Kazyna.

Production profile



Capital expenditure



Bozshakol key facts:

Large scale open-pit processing 30 MT ore annually
– 25 MT ore annually after 14 years

First copper production in 2015

Employee numbers estimated to be 1,500 at full operation

Production life of over 40 years

Annual copper in concentrate output estimated to be:
– 100 kt from 2015 to 2030
– 60 kt from 2031 to 2056

Close proximity to existing infrastructure

By-products include contained gold of 5,255 koz and contained molybdenum of 57 kt

Anticipated capital cost of $1.8 billion


LIUGONG

Developing mid-sized growth projects

Kazakhmys has a number of mid-sized projects, which together with our major projects will help to increase annual copper production from our current level of 300 kt to over 500 kt. These projects are vital components of our growth strategy, delivering high returns from existing assets.

Akbastau-Kosmurun project timeline

2011
34,000 metres of drilling completed
3D models of construction design completed
Engineering study for utilities and services commenced

Mid-sized project	Stage
Bozymchak	development
Akbastau	feasibility
Kosmurun	feasibility
Anisimov Klyuch	pre-feasibility
Five projects	scoping

The Group has nine mid-sized projects, ranging from those at the early scoping stage to development. The projects are generally at existing operations and include mine extensions, new developments and additional processing facilities. By taking advantage of existing infrastructure, these projects should provide high returns.

These projects are highly collaborative, run by the current operational management, Kazakhmys Projects and Kazakhmys Exploration.

Development in action: Akbastau-Kosmurun

Akbastau and Kosmurun promise significant opportunities to extend current mining operations and reduce costs through the development of a new concentrator.

The existing operational mines are currently delivering high grades of copper as well as attractive by-product mixes, particularly gold. The feasibility studies are assessing the extension of the Akbastau open-pit mine and to take the Kosmurun deposit underground. Each mine could produce up to 2 MT of ore per annum.

We are also assessing the construction of a concentrator close to the deposits. Currently, ore from these mines has to be transported over 200 kilometres to the concentrator at Karagaily. A new concentrator will save transportation costs and should improve recovery rates.

The feasibility studies began in 2011 and will be complete by 2013 when a full development assessment will be made.

Estimated spend on mid-sized projects in 2012

$350 million

2012

Laboratory testing on concentrate processing

Optimisation of mine plans

Completion of reserve estimates

Delivery of detailed engineering plans for the utilities and infrastructure

2013

Feasibility studies complete

Assess development

Increasing capacity to generate power

With demand for power growing in Kazakhstan, the upgrade of Ekibastuz GRES-1 power station could not be more important for our growth strategy. The $1 billion refurbishment programme will not only dramatically increase capacity, but will also generate substantial environmental improvements.

Reducing ash emissions at Ekibastuz GRES-1

Ash emission from coal-fired power stations is an important environmental issue and one which Kazakhmys is addressing. The refurbishment of Ekibastuz GRES-1 includes the installation of electrostatic precipitators. In one year a single precipitator can trap 600 kt of ash. By 2014 all of the five current operating units will have precipitators installed, and they will be automatically included within the three new units planned for rehabilitation over the next four years. The installation of these precipitators will also increase efficiency, reducing the coal required per unit of energy produced and therefore the associated greenhouse gas emissions.

We are currently reviewing the potential to recycle the captured ash into building materials.

Potential capture of ash emissions

99.6%

Timeline of precipitator installations

2010 Unit 5

2011 Unit 6

2012 Unit 4, new Unit 8

Increasing power supply in Kazakhstan is critical to ensuring continued economic growth. As industrial production increases so does demand for power – much of this demand can be met by our upgrade of the country's largest power station which will almost double capacity by 2017. From Ekibastuz GRES-1 and three captive power stations, Kazakhmys is the largest power producer in Kazakhstan, supplying over 20% of Kazakhstan's gross power generation.

Today Ekibastuz GRES-1 has five turbine units in operation and a capacity of 2,500 MW. A sixth unit will be reintroduced by the end of 2012, increasing capacity to 3,000 MW, and by 2017 the plant should have eight units in operation, with a total capacity of 4,000 MW. The upgrade is funded from the internal cash flows generated by Ekibastuz GRES-1.

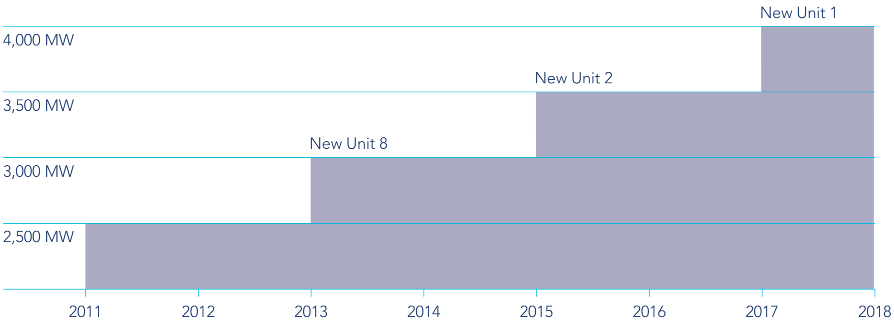
Share of domestic market

20%

Ekibastuz GRES-1 capacity expansion increased by 2017

60%

Capacity expansion



8

2013
New Unit 2, Unit 7

2014
Unit 3

2016
New Unit 1

Ensuring future growth through exploration

Our dedicated exploration team is continually seeking to expand our future project pipeline. The team carries out drilling and geological work across Kazakhstan solely for Kazakhmys. In 2011 we spent $41 million on exploration activities and anticipate increasing this expenditure to around $80 million in 2012.

The team is ensuring Kazakhmys has a high-quality geological database, built to an international standard, which enables the Group to exploit current operations and determine the locations for best value expansion and new development.

Introducing higher standards in safety

Safety is our key objective across the business and has been a focus for the exploration team in 2011. The team has analysed the specific hazards its work involves and introduced new safety standards. Safety specialists worked alongside the geologists and drilling specialists to develop the standards, which will be regularly reviewed based on employee feedback and incident analysis. Weekly meetings are held for employees to discuss incidents and to be involved in developing preventative measures. The team has introduced incentives partly based on safety performance, and will not work with contactors who do not meet the new standards.

Our growth depends on a strong project pipeline, and the aim of our exploration team is to continually assess opportunities. Their work includes identifying expansion potential for existing mines as well as new projects such as Bozshakol.

In 2011 Kazakhmys Exploration worked in 11 areas and completed over 325 thousand metres of drilling. In 2012 the team will operate around 12 deposits, seven of which will be a continuation of work from 2011. The team will be looking at two entirely new deposits, one within an existing mine lease, and the team anticipates drilling around 250 thousand metres.

Our drilled material is divided into two parts, one to be sent for laboratory analysis, the second kept for control purposes. The lack of domestic facilities in both of these areas constrained drilling and in 2012 we will look at the expansion of storage facilities and certified laboratories within Kazakhstan.

Exploration sites in 2011

Our exploration team consists of 76 specialists, including 37 geologists. The team is divided into seven working groups across Kazakhstan, each of which supports up to two projects. External consultants are also engaged to monitor quality control.

Deposits covered in 2011

11

Metres drilled in 2011

325,000

Investment for Growth – continued

Investing in people and communities

Our business relies on mutually beneficial relationships with communities who support our operations and make up our workforce. Kazakhmys creates employment, works with local suppliers and invests in local infrastructure. Our aim is to foster economic development and ensure that local people and firms benefit from, but do not rely on, our business in the long term.

Economic development

As one of Kazakhstan's largest and most influential companies we are fully committed to the national economy. In 2011, around 50% of our spending on goods and services was on items produced in Kazakhstan by Kazakhstani companies. We have provided interest-free loans to help four suppliers increase their ability to supply us, and have invested in several joint ventures to create local suppliers where none currently exist. Kazakhmys has also led the creation of two supplier associations for small and medium-sized companies, to help them develop the quality and skills needed to do business with us. Together, these organisations represent almost 200 companies with over 10,000 employees.

Investing in future leaders

Our people are at the heart of our business, and are the key to our future growth. In 2011, we identified 331 promising employees with the potential to lead our business in the future. In 2012, we will narrow the field to 100 employees. These 'High Potential' employees will receive the training needed to ensure they are suitable successors for key management roles. Training will range from Masters degrees to visits to leading companies and best-in-class mines around the world.

Investing in infrastructure

Kazakhmys plays a significant role in the communities in which we operate, many of which were developed historically to serve our mining operations. We are committed to retaining the close link we have with these communities and continue to invest in their development. This commitment includes the construction and maintenance of schools, hospitals, infrastructure, cultural and sports facilities in the areas surrounding our operations. To give just a few examples, in 2011 we contributed more than $300,000 towards an air and water-quality monitoring system in Ust-Kamenogorsk, began rebuilding a community centre in Zhezkent, and funded the construction of a tennis centre, ice rink, and four civic monuments in Karaganda.

Percentage of goods and services purchased in Kazakhstan

50%

Key Performance Indicators

Measuring our progress through KPIs

The Group monitors performance against a set of Key Performance Indicators with the aim of delivering its strategic objectives, as set out on page 20.

A review of the Group's KPIs was conducted in 2010 to improve the alignment of our KPIs with the Group's strategy and risks. After the 2010 review, eight KPIs were selected as most relevant and these have been maintained and reported against in 2011. These KPIs will continue to be monitored in the future to ensure they remain relevant.

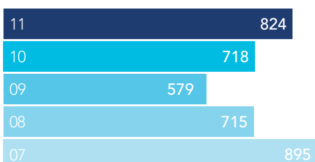
KPIs specific to corporate responsibility are reported in the Corporate Responsibility section, starting on pages 78 and 79.

Objectives

Delivering value for our shareholders

Free Cash Flow ($ million)

824



Relevance

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

How we measure

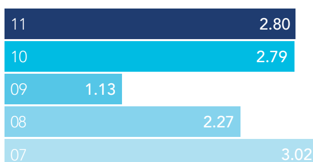
Net cash flow from operating activities less sustaining capital expenditure on tangible and intangible assets.

2011 Performance

Free Cash Flow increased by 15% to $824 million which was used to fund higher returns to shareholders and return the Group to a net funds position.

Earnings per share based on Underlying Profit ($)

2.80



Relevance

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

How we measure

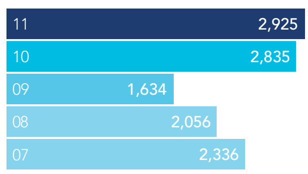
Profit before special items and other non-recurring or variable non-trading items, and their resulting taxation and minority interest impact, divided by the weighted average number of ordinary shares in issue during the year.

2011 Performance

The increase in EPS based on Underlying Profit was driven by higher metals prices. The full year dividend of 28.0 US cents per share, paid out of 2011 earnings, represents an increase of 27% compared to 2010.

Group EBITDA (excluding special items) ($ million)

2,925



Relevance

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

How we measure

EBITDA is earnings before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax as adjusted for special items and including the share of EBITDA of the joint venture and the associate.

2011 Performance

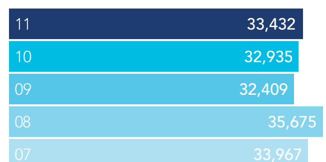
Group EBITDA increased by 3% to $2,925 million, as stronger metal prices more than offset rising operating costs. The contribution from our associate, ENRC, increased by 7% to $966 million, also driven by rising commodity prices. The improved Group EBITDA performance has driven stronger cash flows allowing greater returns to shareholders.

Strategy

Optimise existing assets

Ore output (kt)

33,432



Relevance

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

How we measure

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

2011 Performance

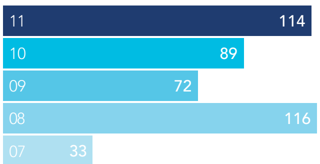
Ore extraction was 2% higher than in 2010 as the Mining Division seeks to raise ore output to compensate for declining grades.

Strategy

Deliver growth projects

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

114



Relevance

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

How we measure

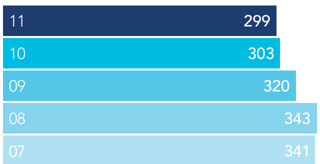
The total of cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathode equivalent sales.

2011 Performance

Net cash cost increased 28% to 114 USc/lb. Gross cash cost increased from 203 USc/lb to 249 USc/lb which reflects the declining grade, an increasing cost base and lower sales volumes. The net cash cost was assisted by higher by-product credits from sales of silver, however, a higher cost base, lower sales volumes and the National Bank's restriction on sales of gold bar contributed to the increase in net cash cost. Kazakhmys retains a competitive position on the global cost curve.

Copper cathode equivalent production from own material (kt)

299



Relevance

Copper, the Group's principal product, represents 72% of the Group's revenue and is the main operational indicator. The price of copper is set by the market and is not, therefore, a KPI.

How we measure

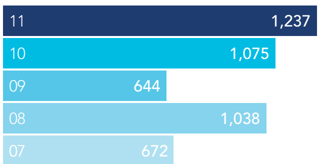
Copper cathode equivalent produced from own ore either as refined copper cathodes or as recoverable copper in concentrate or residues sold.

2011 Performance

Copper cathode equivalent production was 2% below the prior year, as a 10% fall in copper in concentrate output was compensated by a release of work in progress carried over from 2010 at the smelters. Own copper cathode equivalent production in 2012 is expected to remain at a similar level as in 2011.

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

1,237



Relevance

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

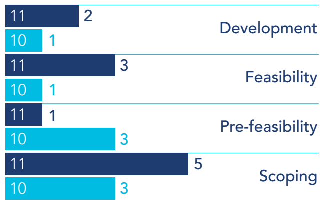
How we measure

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

2011 Performance

Maintenance spend per tonne was 15% higher than last year at $1,237 per tonne, impacted by the increasing cost of equipment, investment in improving working conditions and in preparation for expected future rises in ore output. Capital expenditure in 2011 included equipment to improve health and safety at the mines as well as purchases to replace obsolete equipment, and to maintain output at the concentrators, smelters and auxiliary workshops.

Project status



Relevance

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

How we measure

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

2011 Performance

Bozymchak is in the development stage, with first production due in early 2013. Bozshakol has moved from the feasibility stage to the development stage in 2011. Akbastau, Kosmurun and Aktogay all progressed from the pre-feasibility stage to the feasibility stage during 2011. Anisimov Klyuch has now commenced pre-feasibility and a further five projects are currently at the scoping stage.

Managing our risks

The significant risks identified by Kazakhmys are those that could materially affect the Group's financial condition, performance, strategy and prospects. These should be carefully considered in conjunction with the cautionary statement set out on page 212. There may be other risks unknown, or currently believed immaterial, by Kazakhmys which might become material.

Operational risks

Risk description	Impact	Action
Health and safety Mining is a hazardous industry and failure to adopt and embed health and safety management systems could result in harm to Kazakhmys' employees as well as fines and penalties and damage to the Group's reputation.	Health and safety incidents could lead to a number of adverse consequences, including harm to people, as well as production disruption, reputational damage and financial loss. Fatality levels at Kazakhmys are higher than at comparable internationally listed mining companies, with 24 fatalities recorded for 2011.	Kazakhmys recognises that the highest standards of health and safety practices are vital to its success, and are a key responsibility of all employees. The Group's policies and procedures in these areas are designed to identify relevant risks and opportunities and provide a clear framework for conducting business. Further details on the measures being taken to improve health and safety practices, including the work of the Group's HSE function, are set out in the Corporate Responsibility Report commencing on page 76.
Business interruption The business of mining, smelting and refining metals and the production of power is resource intensive, and involves a number of risks, including, but not limited to, geological and technological challenges, weather and other natural phenomena such as floods and earthquakes, fires, explosions, equipment failures, delays in supplies and loss of key inputs including electricity, water and coal, which can cause prolonged mine or plant shutdowns or periods of reduced production.	Any disruption to operational activities could have a negative impact on the Group's profitability and cash flows, and may require the Group to make large unplanned capital expenditures. In addition to revenue losses, long-term business interruption could result in a loss of customers and reputational damage.	Work is being undertaken across the Group, with the support of appropriate in-house and third-party specialists, to address operational risk issues. The Group has a number of initiatives underway to improve equipment availability and reduce outages. The Group is partially protected from the loss of key assets by the availability of geographically diversified mining and concentrating operations, two smelting complexes, the option of selling concentrate to customers and access to multiple power sources. A combined property damage and business interruption catastrophic insurance programme is in place which can provide protection from some of the financial impact of a major incident at the Group's main concentrating, smelting and refining facilities, and power stations.
Assets controlled by third parties and joint ventures Kazakhmys holds a 26% investment in ENRC PLC. The business and financial performance of this investment is not controlled by the Group. Furthermore, the Group is party to a joint venture arrangement in respect of the ownership and management of the Ekibastuz GRES-1 power station. Kazakhmys has also engaged outsourcing companies to manage certain Group assets, principally engaged in the transportation of production materials by road and rail.	Decisions made by the board of ENRC PLC could have a material impact on the reported earnings of Kazakhmys. The board of ENRC PLC may take actions which are inconsistent with the Group's values and strategies. Furthermore, changes in market or macroeconomic conditions could impact the cash flows and the valuation of Kazakhmys' investment in ENRC PLC. The Group's partner in the Ekibastuz GRES-1 joint venture may have business interests inconsistent with those of the Group and may exercise its right to block certain actions. The partner may take actions which are inconsistent with the Group's policies or standards. Outsourcing companies may take actions which are inconsistent with the Group's objectives or operating procedures, including the failure to adequately maintain Kazakhmys' assets.	Kazakhmys monitors the business and financial performance of its 26% investment in ENRC PLC. The Group has the ability to exercise its rights as the single largest shareholder of ENRC PLC and maintains an active dialogue with members of ENRC's board, senior management and major shareholders. Kazakhmys seeks to ensure that the appropriate governance structures are in place to manage the Ekibastuz GRES-1 joint venture in accordance with the Group's business interests and that they are consistent with the Group's policies and standards. Under the terms of the joint venture arrangement, Kazakhmys is entitled to appoint the operational management of the power plant until 2015, overseen by a supervisory board consisting of representatives of both joint venture partners. Kazakhmys actively monitors the performance of its outsourcing companies to ensure they fulfil their contractual obligations.

Operational risks continued

Risk description	Impact	Action
New projects The development of new projects involves many risks including geological, engineering, procurement, financing and regulatory risks. If the Group fails to adopt an appropriate procurement and project management strategy, it may experience delays to project schedules and an increase in costs. Regulatory risks include failures to obtain and maintain applicable permits, licences or approvals from the relevant authorities to perform certain works.	Projects may fail to achieve the desired economic returns due to an inability to recover mineral reserves as planned and higher than expected capital and operating costs. Projects may also fail to complete or suffer delays which may reduce future production volumes and result in a financial loss to the Group. A reduction in future production volumes would also increase the cash cost on a per unit basis.	Prior to an investment decision being made, certain evaluation activities are performed including, where appropriate, feasibility and other technical studies. Significant projects are subject to the Group's capital appraisal process, including Board review and approval as they progress. There are also a number of planning and monitoring procedures in place addressing the management of capital expenditure. The Group ensures that sufficient expertise, from both in-house and third-party specialists, is utilised on projects throughout their life cycle. For the major project currently underway, Bozshakol, Kazakhmys has appointed an experienced EPC contractor to manage the construction of the processing plant. In respect of project funding, Kazakhmys has long-dated financing in place for Bozshakol and a number of the medium-sized projects and a loan agreement has been signed during 2011 for the development of Aktogay, the Group's other major copper project.
Specialist staff, mining equipment and supplies Commodity price fluctuations can have an impact on industry demand for specialist staff and mining equipment and supplies. In periods of elevated commodity prices competition for skilled personnel intensifies, both internationally and within Kazakhstan, and availability of mining equipment and supplies can be subject to long lead times and cost inflation. The remote location of some of the Group's operations also makes the attraction and retention of skilled staff at these sites more challenging.	Kazakhmys may suffer shortages of skilled workers and delays in obtaining mining equipment and supplies which limit the Group's ability to operate effectively. Employee costs and the Group's mining equipment and supplies may be subject to pricing pressures, thereby increasing operating and capital costs which would also affect the Group's financial performance and may impact the viability of certain mines and projects.	The Group actively monitors the market for specialist staff and mining equipment and supplies to remain competitive in the hiring of staff and procurement of mining equipment and supplies. Kazakhmys has an extensive social programme for its employees and their dependents and invests in training facilities and staff development to raise skill levels. Further details of measures to manage talent risk and improve personnel attraction and retention are set out in the Corporate Responsibility Report commencing on page 76. The Group also assesses opportunities for outsourcing which can bring in external capabilities.
Political risk Most of the Group's mining and power operations are in Kazakhstan. Accordingly, the Group is substantially dependent on the social, political, economic, legal and fiscal conditions prevailing in Kazakhstan.	Changes to Kazakhstan's foreign trade (export and import), foreign investments, property, tax, environmental and mining regimes or social responsibility expectations or other changes that affect the supportive business environment in Kazakhstan could negatively affect the Group's business, financial position and performance.	The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia. The Government of Kazakhstan has representation on the Board of Kazakhmys and is a significant shareholder in the Group. The Board continues to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remains optimistic about the conditions for business in the region. Kazakhmys maintains a proactive dialogue with the Government of Kazakhstan across a range of issues, including subsoil use regulations, taxation, the environment and social responsibility and community relations.
Reserves and resources Kazakhmys' ore reserves for operating mines and development projects are largely based on the estimation method for reserves and resources established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves, and geological, technical and economic assumptions that were valid at the time of estimation may change significantly when new information becomes available.	Changes in reserves could adversely impact mine plans and the economic viability of projects resulting in economic losses, negatively impacting the Group's financial position and performance.	The Group's ore reserves and mineral resources are published in accordance with the criteria of the JORC Code and can be found on pages 204 to 208. Kazakhmys engages the services of independent technical experts to annually convert reserve and resource calculations for operating mines and development projects from the in-house method established by the former Soviet Union to the method prescribed by the JORC Code. The Group's reserves and resources were last audited in 2010 by an independent technical expert. A project is ongoing to digitise selected mines' reserves which will be used in the future for determining estimates of reserves and resources and to support improved estimation of ore grades and mine planning.

Principal Risks – continued

Compliance risks

Risk description	Impact	Action
Subsoil use rights In Kazakhstan and certain other countries in which the Group operates, all subsoil reserves belong to the State. Subsoil use rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. Rights may be terminated if the Group does not satisfy its licensing or contractual obligations, which may include financial commitments to State authorities and the satisfaction of mining, development, environmental, social, health and safety requirements. Recent legislation relating to subsoil use rights has come into force in Kazakhstan, which sets out stricter requirements on the performance of licence obligations, technical documentation, work programmes and the level of goods and services sourced from Kazakhstan.	As many of Kazakhstan's subsoil use laws have been adopted relatively recently and remain untested in the country's judicial system, the legal consequences of a given breach may not be predictable. However, non-compliance with the requirements of subsoil use contracts could potentially lead to regulatory challenges and subsequently to fines and litigation, and ultimately to the loss of operating licences. The loss of any of the Group's subsoil use rights could have a material adverse effect on its mining operations.	The Group's management makes every effort to engage with the relevant regulatory authorities and ensure compliance with all relevant legislation and subsoil use contracts. The Group's procedures to ensure compliance with the terms of subsoil contracts have been updated to reflect the requirements of the new legislation. A specialist department is also tasked with monitoring compliance with the terms of the subsoil use contracts.
Environmental compliance The Group operates in an industry that is subject to numerous environmental laws and regulations. As regulatory standards and requirements continually develop, the Group may be exposed to increased compliance costs and environmental emission charges. Policies and measures at a national and international level to tackle climate change will increasingly affect the business, thereby presenting greater environmental and regulatory risks.	A violation of environmental laws, or failure to comply with the instructions of the relevant authorities, could lead to the suspension of operating licences, challenges to subsoil use mining rights, fines and penalties, the imposition of costly compliance procedures, reputational damage and financial loss. New or amended environmental legislation or regulations may result in increased operating costs, additional capital investment or, in the event of non-compliance, the possibility of fines, penalties or other actions which may adversely affect Kazakhmys' financial results and reputation. Emissions charges in Kazakhstan have been increased over recent years and the authorities are adopting an increasingly robust stance on compliance with environmental standards.	The Group has policies and procedures in place which set out the required operating standards for all employees. Kazakhmys monitors its emissions and in recent years has invested in reducing its environmental impact including the construction of the sulphuric acid plant at Balkhash and the ongoing programme to install electrostatic precipitators at the Ekibastuz GRES-1 power plant. The Group liaises with the relevant governmental bodies on environmental matters, including the development of new legislation. Further details of the environmental measures being taken by the Group are set out in the Corporate Responsibility Report commencing on page 76.

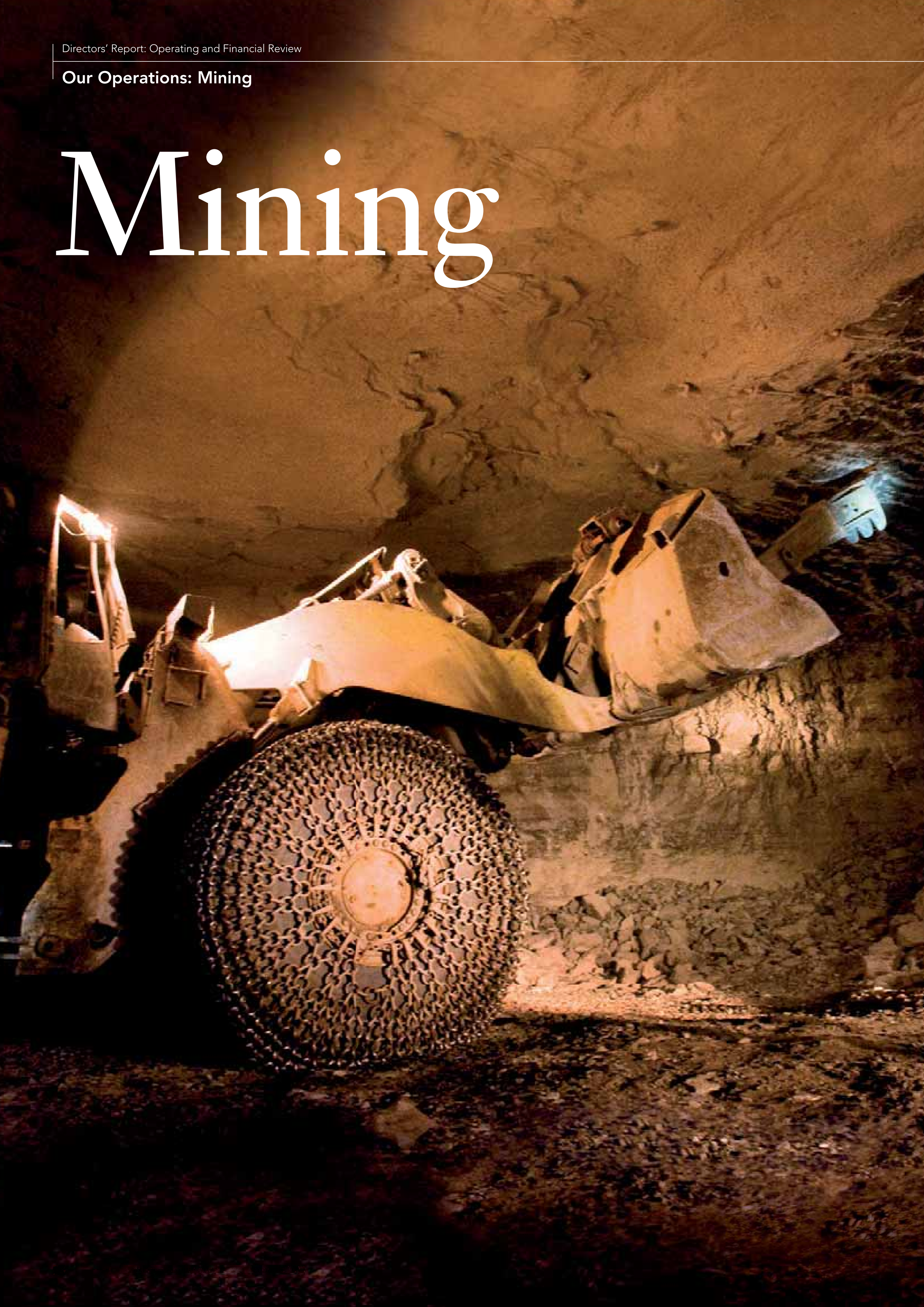
Financial risks

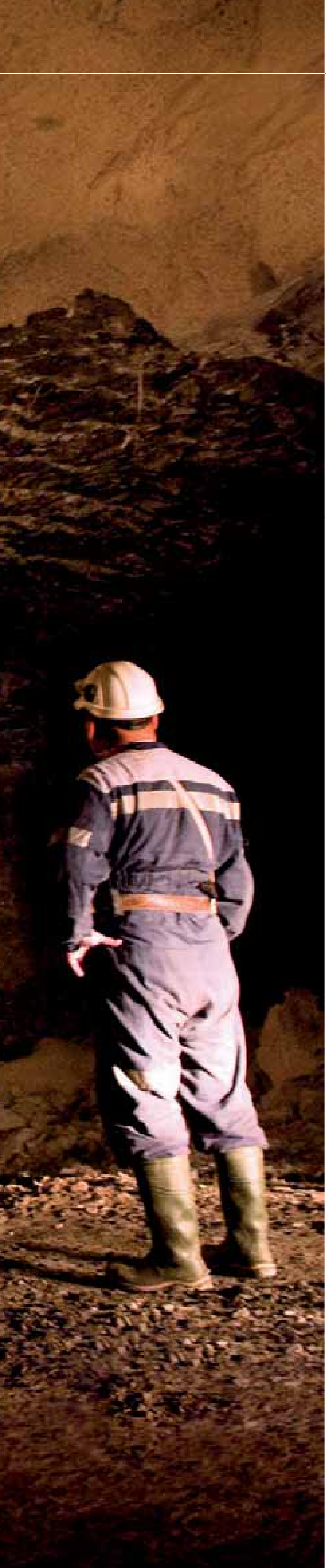
Risk description	Impact	Action
Commodity prices The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international global metal exchanges. Kazakhmys' financial results are strongly influenced by commodity prices which are dependent on a number of factors, including world supply and demand and investor sentiment. In particular, Kazakhmys is exposed to demand from China as described on page 39, a major consumer of the metals which the Group produces. Due to these factors, commodity prices may be subject to significant fluctuations, which could have a positive or negative impact on the Group's financial results.	Commodity prices can fluctuate widely and could have a material impact on the Group's asset values, revenues, earnings, cash flows and growth prospects.	The Group keeps under regular review its sensitivity to fluctuations in commodity prices. The Group does not as a matter of course hedge commodity prices, but may enter into a hedge programme for certain commodities where the Board determines it is in the Group's interest to provide greater certainty over future cash flows. The Group adopts a prudent approach in its financial planning reflecting the volatility in commodity prices.

Financial risks continued

Risk description	Impact	Action
Exposure to China In addition to the impact of Chinese demand on the pricing of Kazakhmys' major products, as noted under the Commodity Prices risk above, the Group makes significant physical sales to China which over the past five years have represented an average of 43% of Kazakhmys Mining's revenues. The proportion of sales into China is likely to increase in the future when production commences from the two major growth projects, Bozshakol and Aktogay. China is also an important source of debt financing to the Group, with Kazakhmys currently utilising a $2.7 billion financing line from the CDB and Samruk-Kazyna for the development of the Bozshakol copper mine and a number of mid-sized projects. In 2011, Kazakhmys also signed a loan facility directly with the CDB for $1.5 billion to fund the development of the Aktogay copper project.	Changes to China's fiscal or regulatory regimes or lower Chinese copper consumption could reduce demand in China for Kazakhmys' major products, leading Kazakhmys to direct a greater volume of sales to its other major market, Europe. Changes to Chinese government policy on credit or cross border lending may affect the availability of Chinese bank lending to Kazakhmys.	Kazakhmys continues to sell a significant volume of its copper production into Europe as well as into China, thereby taking advantage of its geographic position which provides access to both major markets. In the event that demand reduced in China for Kazakhmys' products, Kazakhmys would continue to allocate its sales between the two markets to obtain the best commercial terms. The financing line for Bozshakol and mid-size projects has been largely drawn and the Aktogay loan agreement is a committed loan facility subject to the satisfactory completion of the feasibility study, thereby providing greater certainty over the funding of Kazakhmys' growth projects. Kazakhmys also maintains relationships with a number of international lending banks and has the flexibility to consider other sources of capital such as the bond or equity markets, if so required.
Acquisitions and divestments In the course of delivering its strategy, Kazakhmys may acquire or dispose of assets or businesses. Corporate transactions may however fail to achieve the expected benefit or value to Kazakhmys.	Changing market conditions, incorrect assumptions or deficiencies in due diligence processes could result in acquisitions failing to deliver the expected benefit or value to the Group, leading to adverse financial performance and failure to meet expectations. Acquisitions could also lead to the Group assuming liability for the past acts of acquired businesses, without recourse to other parties. The disposal of assets or businesses may not achieve the expected proceeds due to changing market conditions or deficiencies in the sales process.	Specialised staff are assigned to manage corporate transactions, supported where appropriate by external advisors. Due diligence processes are undertaken on acquisitions and material transactions are subject to Board review and approval, including ensuring the transaction is aligned with the Group's strategy, consideration of the key assumptions being applied and the risks identified.
Liquidity risk The Group is exposed to liquidity risks, including the risk that borrowing facilities are not available to meet cash requirements, and the risk that financial assets cannot readily be converted to cash without the loss of value.	Failure to manage financing risks could have a material impact on the Group's cash flows, earnings and financial position as well as reducing the funds available to the Group for working capital, capital expenditure, acquisitions, dividends and other general corporate purposes.	The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group's financial position, cash flows and future capital commitments. Kazakhmys adopts a prudent approach in managing its liquidity risk, reflecting the volatility in commodity prices. The Group has secured committed funding for Bozshakol and a number of the medium-sized projects and has signed a committed loan facility for the development of Aktogay. Further details are set out in the Financial Review on page 73.
Taxation As the tax legislation in Kazakhstan has been in force for a relatively short period of time, tax risks in Kazakhstan are substantially greater than typically found in countries with more developed tax systems. Tax law is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. Tax regulation and compliance is subject to review and investigation by the authorities who may impose severe fines, penalties and interest charges.	The uncertainty of interpretation and application, and the evolution, of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's cash flows, earnings and financial position.	The Group makes every effort to comply with existing tax legislation, and works closely with the Government and tax authorities in the review of proposed amendments to tax legislation and regulation. Further details of the Group's tax strategy and risk management are set out in the Financial Review on page 70.

Mining





2011 Highlights

Ore production (annual)

33 MT

Copper grade

1.01%

Key achievements

- Copper production from own material of 299 kt
- EBITDA $1,808 million (excluding special items)
- Bozshakol moved to development stage
- Aktogay moved to feasibility stage

Review of Kazakhmys Mining

In 2011, the Group's mining, concentrating, smelting and auxiliary operations, which were previously included in the Kazakhmys Copper and Kazakhmys Gold Divisions, were combined to form the Kazakhmys Mining Division. Within the Mining Division, the mines and concentrators are managed in three geographic regions: Zhezkazgan, East and Central, with the Central Region comprising the operations previously managed separately in the Balkhash Complex, Karaganda Region and the Kazakhmys Gold Division. The Zhezkazgan and Balkhash smelting and refining units now form a single metallurgical department within the Mining Division, whilst historically they were managed separately under Kazakhmys Copper's regional mining structure.

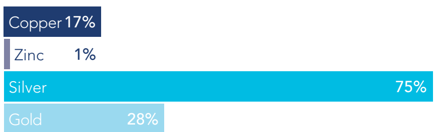
The three captive power stations which were previously included within the Kazakhmys Copper Division are now managed and reported in the Power Division.

Market overview

Kazakhmys Mining's key products are copper, zinc, silver and gold which are actively traded on major metal exchanges. The pricing environment for commodities was strong towards the end of 2010, with optimism over the global economic recovery continuing to support prices in the first half of 2011. In the second half of the year, commodity markets were impacted by renewed concerns over European sovereign debt levels including the future of the Euro, China's ability to sustain recent economic growth rates and the speed of the economic recovery in the United States.

Despite the negative sentiment in the second half of 2011, total demand for refined copper and zinc, both industrial metals, grew over the year. The average LME price for copper, Kazakhmys Mining's principal product, was 17% above the 2010 average price, while the average zinc price was flat year on year. Gold benefited from the global economic uncertainty and the average LBMA exchange price rose by 28%, while the silver price was supported by investment flows, particularly in the first half of the year, with a 75% growth in the average LBMA exchange price in 2011 compared to the prior year.

Average price growth in 2011[1]

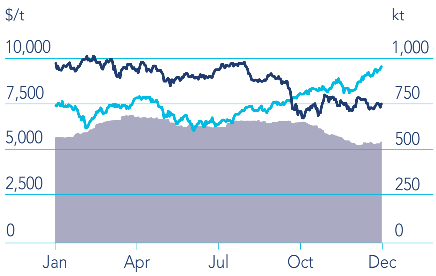


[1] Average price quoted on the LME and LBMA exchanges compared to 2010.

Source: Bloomberg

Our Operations: Mining – continued

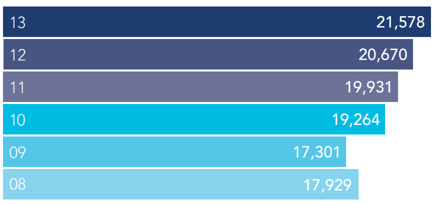
Copper price and exchange inventories



— 2011 LME price
— 2010 LME price
● 2011 exchange inventories

Source: Bloomberg

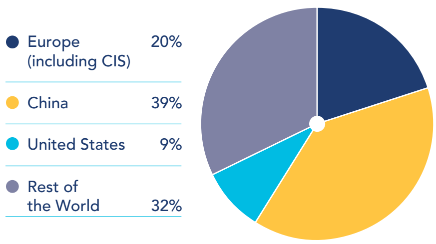
Global refined copper consumption (kt)



● Estimate
● Actual

Source: Brook Hunt – A Wood Mackenzie Company

Global refined copper consumption by region



Source: Brook Hunt – A Wood Mackenzie Company

Copper

The copper market performed strongly in the first seven months of 2011 with the LME cash price reaching an all time high of $10,148 per tonne in February 2011 and averaging $9,430 per tonne over this period. During the remainder of 2011, concerns over the outlook for global economic growth and the impact that lower industrial production levels would have on copper demand were reflected in the LME cash price, which averaged $7,978 per tonne over the final five months of 2011 and reached a low for the year of $6,785 per tonne in October 2011. The copper price stabilised over the final quarter of 2011 as governments in the European Union took action to resolve the sovereign debt burdens and as positive economic data was reported by China and the United States.

Over the year as a whole, the LME cash price averaged $8,811 per tonne, a 17% gain on 2010, which reflects the continuing tight market fundamentals for the metal.

Copper inventories held at the LME, Comex and Shanghai Futures Exchange warehouses declined over 2011, finishing the year at 552 kt, down from 574 kt in January 2011.

Total global demand for refined copper remained strong and refined copper consumption is estimated to have grown to 19.9 MT in 2011, an increase of 3.5% on the prior year. The expansion of global refined copper consumption is due to factors such as the continued urbanisation of China and the accompanying requirement for improved infrastructure throughout the country. Demand was also significantly higher in Russia with the introduction of a cathode export tax which resulted in cathodes being converted domestically into copper rod to take advantage of export tariff exemptions. Refined copper consumption in the rest of Europe fell with the challenging economic conditions encountered by the Eurozone countries in 2011.

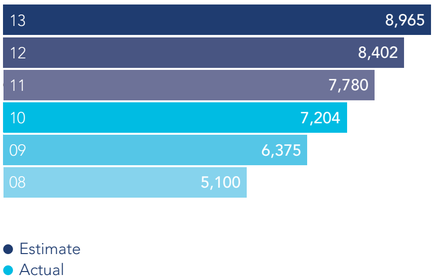
China is the leading consumer of refined copper in the world, accounting for 39% of the forecast global refined copper consumption in 2011, followed by the United States with 9% and Germany with 6%. Europe, including the CIS, accounted for 20% of global refined copper consumption. Demand for refined copper in China, Kazakhmys' largest market for copper sales, is expected to continue to grow and is forecast to account for 46% of global refined copper consumption by 2020.

In 2011, fears of a slowdown in the Chinese economy increased due to the potential impact of sovereign debt issues in Europe, China's largest trading partner, and the credit tightening measures undertaken by the Chinese Government in response to domestic inflationary pressures. Despite these concerns, Chinese refined copper consumption is expected to have grown by 8% in 2011, supported by forecast industrial

Ensuring safety is at the heart of what we do

Our Zhezkazgan Region issued a green, yellow and red safety ticket to each employee in December 2010. Employees lose their green ticket for their first safety violation, and may also receive a financial penalty. The yellow ticket is lost after the second violation, and the employee must retake the entire 40 hours of initial safety training. After the third violation, employees lose their red ticket and usually their job.

Chinese refined copper consumption (kt)

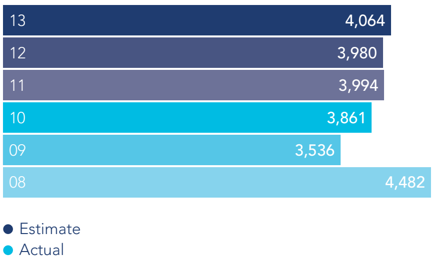


Source: Brook Hunt – A Wood Mackenzie Company

production growth of 13%. Geographically, industrial production growth in the central and western provinces of China outperformed the eastern coastal region where the economy has a greater focus on export markets.

External factors may slow the growth of the Chinese economy in 2012, but the continued urbanisation of the country is expect to increase the demand for copper with Chinese refined copper consumption forecast to grow by a further 8% in 2012.

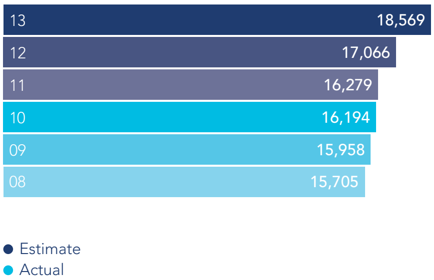
Europe (including CIS) refined copper consumption (kt)



Source: Brook Hunt – A Wood Mackenzie Company

Kazakhmys Mining's other major copper market, Europe, has recorded refined copper consumption growth of 3% in 2011, driven by higher consumption volumes in Russia, following the introduction of a cathode export tax, whereas copper demand fell in the majority of the countries in the region, including Germany, France and Italy.

Total copper production from mines (kt)



Source: Brook Hunt – A Wood Mackenzie Company

European trade and consumption levels were impacted by declining consumer confidence and the introduction of austerity measures by governments in response to high public debt-to-GDP ratios. Industrial production growth in the region is forecast to have slowed to 2% in 2011, down from 5% in 2010. Demand for copper is not expected to improve in 2012 as fears over sovereign debt levels continue and major economies such as Germany, the UK and France have recorded pronounced slowdowns in economic activity.

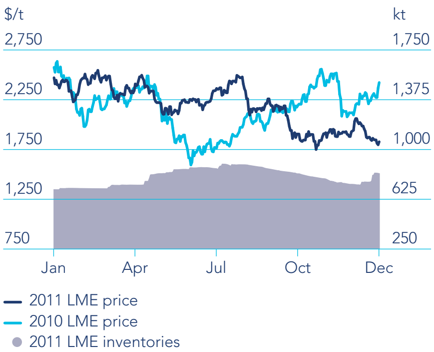
On the supply side of the copper market, total copper production from mines is forecast to have grown by less than 1% in 2011, consistent with the low rate of increase in copper production since 2005 relative to the growth in refined copper consumption. Production issues faced by the copper industry during 2011 included extreme weather and labour relations against a longer-term trend of declining reserves and metal grades. New mine projects have also proven to be challenging to deliver on schedule.

The copper market is expected to be in deficit in 2012, with the growth in demand for copper from China only partially offset by higher copper production volumes, mainly from South America, as supply interruptions which impacted production in 2011 are not expected to re-occur. Some additional supply is also expected from new mines and mine extensions in 2012.

Kazakhmys Mining has annual sales contracts in place for the majority of its planned copper cathode production in 2012. Around 80% of the contracted sales will be made to China with the remaining contracted sales volumes to be sold into the European market. The pricing of copper cathode sales is based on the LME price plus a premium to reflect the terms of trade.

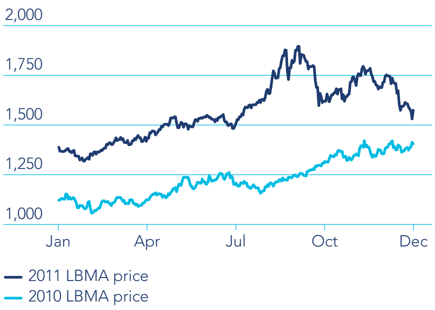
Our Operations: Mining – continued

Zinc price and LME inventories



Source: Bloomberg

Gold price ($/oz)



Source: Bloomberg

Silver price ($/oz)

Source: Bloomberg

Zinc

Zinc is an industrial metal which is heavily used in the construction and automobile industries to galvanise steel. The zinc price averaged $2,191 per tonne in 2011 on the LME, similar to the average price in 2010, but finished the year at $1,828 per tonne, well below the price of $2,471 per tonne at the start of the year.

Demand for zinc is expected to have increased by 6% in 2011, below the 15% achieved in 2010 with slowing growth in the Chinese motor industry and the global construction sector excluding China. Whilst zinc consumption grew in 2011, the supply of zinc is forecast to have expanded by 2%, as increased production from mines in China was sufficient to maintain a surplus of supply in the zinc market. This surplus is reflected by the LME exchange inventories which rose by 120 kt in 2011, following a trend of rising inventories over recent years.

In 2012, demand for zinc is likely to be supported by industrial growth in China, although mine production is expected to expand further in 2012 with the surplus in the zinc market forecast to remain in 2012.

Kazakhmys Mining has concluded its contracts for 2012 and will sell zinc concentrate within Kazakhstan and into China based on the LME price less processing charges.

Gold

The LBMA gold price averaged $1,571 per ounce in 2011, 28% above the average price in 2010, with the gold price starting the year at $1,389 per ounce and reaching $1,575 per ounce by the end of the year.

Demand for gold in 2011 benefited from the global economic concerns as gold represented a safe haven for investors, particularly in the third quarter of 2011. The quantitative easing conducted in a number of countries and strong primary demand for the metal from emerging economies also supported the gold market in 2011. The strength of the gold price over recent years has led to an increase in the supply of gold as new mines and mine extensions commence production.

Investment demand is expected to be the main driver of gold prices in 2012 with the high levels of government debt and the potential for global economic growth to slow further. Given the dependence on investment demand, the gold price could be vulnerable to changes in investor sentiment.

Kazakhmys Mining was impacted by export restrictions on gold bar sales from July 2011 as the National Bank of Kazakhstan exercised its pre-emptive right to purchase precious metals produced in Kazakhstan to hold in reserve. The Group expects to commence gold bar sales to the National Bank based on the LBMA price at the time of delivery in the first half of 2012.

Silver

The price of silver on the LBMA averaged $35.15 per ounce in 2011, 75% above the 2010 average. Silver enjoyed a strong rally in the first half of 2011 reaching a high of $48.70 per ounce in April 2011 but then declining to finish the year at $28.18 per ounce, below the price at the start of the year of $30.63 per ounce.

The silver price spiked in the first five months of the year with significant investment inflows into the metal. Unlike gold, around 50% of demand for silver is for industrial applications and the metal benefited from a favourable outlook for global industrial production in early 2011. When concerns over the state of the global economy intensified midway through 2011, the silver market followed other metals linked to industrial demand and trended lower over the remainder of the year. The supply of silver from mines is expected to have grown by 7% in 2011, primarily as a by-product from new gold mines which have commenced production after the rally in the gold price in recent years.

A combination of investment demand and modest growth in the industrial use of silver is expected to support prices in 2012. Kazakhmys Mining will sell its 2012 silver production to traders based in Asia, principally under annual contracts based on the LBMA price at the time of delivery.

Kazakhmys Mining production summary

Copper production

kt (unless otherwise stated)	2011	2010
Ore output[1]	33,432	32,935
Copper grade (%)	1.01	1.09
Copper in concentrate from own production	303	335
Copper cathode equivalent from own concentrate[2]	299	303
Copper cathodes from purchased concentrate	2	3
Copper rod production	32	35

[1] Excludes output from the Central Mukur gold mine in 2010 and 2011 and the Mizek mine in 2010.
[2] Includes cathode converted into rod.

Total ore extracted from the 15 underground and three open-pit copper mines operated by Kazakhmys Mining during 2011 was 2% above the prior year. The growth in ore output was mainly due to higher production volumes from the Central and East Regions which offset a decline in output from the Zhezkazgan Region.

In the Central Region, production from the West Nurkazgan mine ramped up as ore transportation at the site improved following the repair of the mine's ore conveyor in early 2011. The Akbastau open-pit mine recommenced in September 2011 mainly to conduct preparatory ore extraction work after operations were suspended in 2008. Continued extraction is expected from Akbastau in 2012 ahead of the project to extend the life of the mine and construct a concentrator at the site. These production gains were partially offset by lower output from the Sayak mine which was impacted by harsh winter conditions in early 2011 and equipment outages.

Ore extraction volumes in the East Region were 2% higher than the prior year as improved equipment availability at the Irtyshsky mine more than mitigated lower production from the Artemyevsky mine which experienced poor weather conditions in early 2011 and as the ageing backfill plant underwent reconstruction throughout the year. The work on the backfill plant was completed at the end of 2011 and this should assist production from the Artemyevsky mine in 2012, providing access to other sections of the deposit.

In the Zhezkazgan Region, total extraction volumes were 2% below the prior year, mainly as operations at the maturing Annensky mine moved to more challenging sections, and as production at other mature mines also declined. Zhomart, the region's largest mine by copper metal extracted, maintained ore output at 3.7 MT but at a slightly reduced copper grade of 1.44%. Whilst insufficient to offset the lower output from the region's mature mines, extraction at the open-pit North mine rose as production in the first half of 2010 was limited due to the extensive stripping work that was conducted.

During 2011, the average copper grade of ore extracted fell in line with Kazakhmys Mining's plan to 1.01%, down from 1.09% in 2010. The lower copper grade was due to a number of key mines in the Zhezkazgan Region maturing and as the Central Region also saw a decline in grade, with operations at Sayak and Abyz mines moving to lower copper content sections and as the West Nurkazgan mine, which has a lower than average copper grade, ramped up output. The lower copper grade was partially offset by the higher ore output, and resulted in a 23 kt or 6% reduction in copper metal in ore extracted in 2011 compared to 2010.

Copper in concentrate from own production totalled 303 kt in 2011, a 10% decline compared to the prior year due to the lower quantity of copper metal in ore extracted and a small decrease in concentrator recovery rates. In addition, higher volumes of stockpiled ore were processed in 2010. The contribution to copper in concentrate production from the reprocessing of slag generated from the Balkhash concentrator and converters was flat year on year, with this material continuing to be processed in 2012.

Despite the 10% fall in own copper in concentrate output, copper cathode equivalent production from own concentrate of 299 kt in 2011 was only 2% below the prior year, with the balance mainly made up by the release of copper material at the smelters over 2011 which had accumulated in previous years. The Balkhash smelter and refinery produced 63% of Kazakhmys Mining's copper cathode output in the year, processing all of the copper concentrate from the Central and East Regions, along with some concentrate from the Zhezkazgan Region to gain processing efficiencies. The Zhezkazgan smelter continued to operate with one of its two furnaces held in reserve and this is expected to continue in 2012.

Own copper cathode equivalent production in 2012 is anticipated to be at similar levels to that achieved in 2011. This target will be supported by higher ore extraction volumes with a full year of production from the Akbastau mine, increased production from some of the existing mines as optimisation work is completed and market conditions permitting, the recommencement of the low grade Konyrat open-pit mine in the second half of 2012. Copper grades are expected to decline in 2012 with output from Konyrat and lower grades at a number of existing mines.

Copper rod production was slightly below the prior year. With the decline in premiums available for copper rod, it is expected that a reduced volume of copper rod will be produced in 2012.

Zinc production

kt (unless otherwise stated)	2011	2010
Zinc grade (%)	3.55	4.58
Zinc in concentrate	140	167

Zinc grades were lower in 2011 as most of the mines in the East Region, which produced 92% of the zinc metal in ore extracted by Kazakhmys Mining, recorded declining grades. In particular, grades were lower at the Artemyevsky and Orlovsky mines as extraction moved to lower zinc content zones. The decline in grades also reflects the extraction of lower zinc grade ore from the Akbastau mine. The quantity of zinc metal in ore extracted in 2011 was 13% below the prior year as the decline in the zinc grades was partially offset by a 12% increase in the production of ore containing zinc.

The zinc in concentrate output of 140 kt in 2011 was 17% below the prior year due to the lower volume of zinc metal in ore extracted and a decline in concentrator recovery rates from 72% to 69%, primarily due to the lower grade and also with the processing of Akbastau copper-zinc ore from which reduced zinc recovery rates are achieved.

In 2012, zinc in concentrate production is expected to slightly exceed output in 2011, as extraction moves to higher zinc content sections of existing mines in the East Region.

Reducing our environmental impact

The Balkhash smelter is reducing sulphur dioxide (SO_2) emissions by transforming them into sulphuric acid at a nearby production plant. In 2011, the plant increased acid production by 10.5% to 913,524 tonnes, utilising 87% of SO_2 emissions produced at the complex.

Precious metals production

	2011	2010
Silver grade (g/t)	17.69	20.06
Silver own production[1,2] (koz)	13,137	14,127
Gold grade (g/t)	0.66	0.73
Gold own production (by-product)[1] (koz)	118	127
Gold grade (g/t)	1.27	1.25
Gold doré production (primary) (koz)	33	43

1 Includes slimes from purchased concentrate.
2 Includes a small volume of by-product production from the Central Mukur and Mizek mines (previously included within Kazakhmys Gold).

The volume of silver bearing ore in 2011 was 2% above the prior year, however the volume of silver metal in ore extracted reduced by 11% compared to 2010 as the silver grades in the Zhezkazgan and East Regions were lower. Together, the Zhezkazgan and East Regions produced over 90% of the silver metal in ore extracted in 2011. The lower silver grades were anticipated as grades decline at the mature mines in the Zhezkazgan Region and as grades fell at a number of the mines in the East Region, in particular at the Artemyevsky mine.

The 11% decline in silver metal in ore extracted in 2011 was partially mitigated by the release of work in progress at the smelters and precious metals refinery brought forward from the prior year. Silver granule and bar production from own material was 13,115 koz for the year. The output of silver granule and bars is estimated to be around 12,000 koz in 2012 with a decline in silver grades and no significant contribution from the release of work in progress expected.

The volume of ore containing gold extracted in 2011 increased by 10% compared to the prior year with the re-opening of the Akbastau mine and ramping up of the West Nurkazgan mine. However, gold metal in ore output in 2011 was 1% below the prior year as gold grades were lower than in 2010. Gold grades fell due to the West Nurkazgan mine producing a greater volume of ore with a below average gold content and as the grades at the Artemyevsky and Orlovsky mines in the East Region were adversely impacted by changes to the extraction zones.

Gold bar production was 7% below the prior year as the lower volume of gold metal in ore extracted in 2011 was combined with an increase in work in progress at the smelters and precious metals refinery, while the prior year benefited from a release of work in progress.

Kazakhmys Mining includes the Central Mukur and Mizek mines previously reported in Kazakhmys Gold. The closure of the depleted Mizek mine at the end of 2010 is the main reason for the 23% decline in gold doré production in 2011, although some processing of previously extracted ore from the mine continued in 2011. The processing of material from the Central Mukur mine also reduced in 2011 as the mine reached the end of its operational life.

Total gold bar and doré production from the Mining Division is expected to be approximately 120 koz in 2012, below the current year production of 151 koz mainly due to declining output from the processing of stockpiled ore at Central Mukur and the completion of the processing of stockpiled ore at Mizek in 2011.

Support services summary

Kazakhmys Mining operates two coal mines which supply around 90% of their coal production to the Group's captive power stations with the balance sold externally. In 2011 the coal mines produced 7.6 MT of coal, below the output of 8.1 MT in the prior year, as transportation delays resulted in lower extraction volumes.

Kazakhmys Mining also owns a rail and road transportation network to move ore, concentrate and cathodes. The rail network includes 1,100 km of railway in Kazakhstan, a fleet of 110 electric and diesel locomotives and over 1,500 wagons. The road haulage fleets operate principally in the East and Karaganda Regions where there is less railroad infrastructure. The management of railway services and a number of the road haulage routes are outsourced to third-party suppliers.

Kazakhmys Mining financial summary

$ million (unless otherwise stated)	2011	2010
Sales revenue:	3,548	3,228
Copper cathodes	2,318	2,110
Copper rods	252	274
Zinc concentrate	177	193
Silver[1]	479	271
Gold (by-product)	79	164
Gold (primary)	54	55
Other	189	161
Average realised price of copper ($/t)	8,756	7,523
EBITDA (excluding special items)	1,808	1,736
Net cash costs excluding purchased concentrate (USc/lb)	114	89
Gross cash costs excluding purchased concentrate (USc/lb)	249	203
Capital expenditure[2]	643	590
Sustaining	379	338
Expansionary	264	252

[1] Includes a small amount of sales revenue from the former Kazakhmys Gold mines: Central Mukur and Mizek.
[2] Capital expenditure in 2010 and 2011 excludes major social projects.

Revenues

Kazakhmys Mining's revenues increased by 10% to $3,548 million in 2011, supported by stronger pricing for copper, silver and gold products which more than offset a decline in sales volumes for copper, zinc and gold.

Revenue from copper cathodes and rods was $2,570 million, or 72% of Kazakhmys Mining's total sales in 2011, an increase of $186 million from the prior year. The average realised sales price of copper cathode and rod rose by 16% in 2011, from $7,523 per tonne in 2010 to $8,756 per tonne, slightly less than the increase in the average LME cash price of 17% due to the timing of sales across the year.

The quantity of copper cathodes and rods sold decreased from 317 kt in the prior year to 293 kt in 2011, a reduction of 7%. The lower sales volumes of copper products is partly due to a 2% reduction in cathode output in 2011 and as there was a 13 kt reduction in finished goods stock in the prior year, whilst stock levels increased by 6 kt in the current period. The volume of copper rod sales decreased from 35 kt to 28 kt as premiums on sales to China declined and therefore fewer cathodes were converted into rod. A reduced volume of copper rod will be contracted for sale in 2012.

Zinc concentrate revenue of $177 million in 2011 was 8% below the prior year, as sales volumes declined by 15% due to the 17% reduction of zinc in concentrate production, partially mitigated by the 7% increase in the realised price for zinc concentrate. Whilst the average LME zinc metal price was broadly unchanged when comparing 2010 and 2011, Kazakhmys Mining improved the contractual terms of its sales.

Revenue from the sale of silver bar and granules grew by 77% in 2011, benefiting from strong silver prices, particularly in the second and third quarters of 2011, which led to the average realised price for silver being 77% above the prior year. Sales volumes of silver bar and granules were flat on the prior year due to a release of finished goods in 2011 compared to a build-up of stock in 2010, which offset the lower production volumes in 2011. An export restriction on precious metals was introduced by the National Bank of Kazakhstan in July 2011 to enable the Government of Kazakhstan to purchase gold and silver produced domestically. However, in respect of Kazakhmys Mining's silver production, this was soon lifted and the inventory built up during the ban was sold prior to the year end.

Revenue from gold bar and doré sales in 2011 was $133 million, down from $219 million in the prior year as the National Bank's export restriction on precious metals prevented any sales of gold from July 2011. Whilst the restriction on the export of gold doré was lifted in August 2011, the restriction on gold bar sales continued for the remainder of 2011. Kazakhmys anticipates that the 69 koz of gold bar held in inventory at the end of 2011 will be sold at market rates to the National Bank in the first half of 2012 and monthly sales of gold bar to the National Bank will continue thereafter.

Sales revenue from gold doré produced from the Mizek and Central Mukur mines was consistent on a year on year basis. Gold doré sales quantities were 22% lower in 2011 compared to 2010, in line with the decline in production in 2011, but the realised price for gold doré was 28% higher.

Other revenue includes sales of by-products from Kazakhmys Mining's operations such as lead and sulphuric acid, along with coal sales which are made to third parties and the captive power stations in the Kazakhmys Power Division. Revenue from coal sales to the captive power stations was $49 million in 2011 compared to $37 million in the prior year.

EBITDA (excluding special items)

Supported by the growth in revenues during the year, Kazakhmys Mining's EBITDA increased by 4% to $1,808 million, partially offset by the 16% rise in total operating costs, excluding depreciation and depletion, MET and special items.

The Mining Division's cost of sales, excluding depreciation and mineral extraction tax, increased by 18% in 2011 compared to the prior year. The growth in costs is due to a number of factors, including cost inflation for key input materials, an issue widely reported throughout the mining sector, leading to higher mining, concentrating and smelting costs. Prices for key consumables such as diesel, tyres and reagents all rose materially compared to the prior year. Ore extraction volumes increased by 2% requiring additional usage of input materials compared to the prior year.

Domestic inflation was also a factor in the growth of Kazakhmys Mining's cost base as local inflation in 2011 increased the cost of goods and services in Kazakhstan. The cost of ore haulage services, which has been largely outsourced, were higher in 2011 driven by increased tariffs to reflect the rising costs for fuel and labour in Kazakhstan. Utility costs charged to the Mining Division also increased as tariffs charged by the captive power stations for electricity and heat moved higher as their cost base rose.

Kazakhmys Mining increased the level of maintenance and repair works in order to improve the reliability of mining equipment. Maintenance contracts with equipment suppliers are in place at a number of mines as part of a drive to improve equipment availability. In 2011, repair costs also included the annual overhaul of the furnaces at the Balkhash smelter.

Local inflationary pressures and the competition for skilled labour in Kazakhstan have led to a 33% growth in salary costs for operational employees in 2011. Pay awards were made in the second half of 2010 and in the first half of 2011, along with a move to a collective pay rate in order to achieve consistency across Kazakhmys Mining for staff on lower wages. Higher bonus payments were made to staff in 2011, supported by the stronger commodity pricing environment.

Environmental charges reduced compared to the prior year, as 2010 included some catch-up claims for operations in previous years. The build-up of gold bar inventory due to the restriction on export sales imposed by the National Bank reduced the cost of sales as expenditure associated with the production of gold bar is recorded in inventory and will only be expensed when gold bar sales recommence in 2012.

Excluding depreciation and special items, the Division's administration costs rose by 12% to $504 million in 2011. The cost of social support provided to a range of projects throughout the local community remained in line with the underlying spend in the prior year after expenditure for major social projects announced in 2010 is excluded. The increase in administration expenditure includes the impact of the pay awards granted in 2011 and domestic inflation as outlined above.

The Kazakhstan Government amended legislation in 2011 to significantly increase the entitlements of current and former employees receiving payments for work-related injuries, included within the disability payment obligations of the Group. Based on a reassessment of Kazakhmys Mining's potential liability in meeting the additional obligations and a review of the actuarial assumptions, an additional $172 million was provided in 2011. Of this amount, $146 million directly relates to the change in legislation and has been treated as a special item, with the remaining $26 million relating to the current year cost of the benefit entitlements and the interest charge representing the time value of the provision over the period of the liability.

In previous years, Kazakhmys Mining provided for potential fines and penalties that might be payable in respect of uncertainties over the determination of excess profits tax which could be claimed by the authorities. Following a legal ruling in Kazakhmys Mining's favour in 2011 and the completion of tax audits for the relevant years, the Group's basis for determining excess profits tax in previous years has largely been confirmed and therefore provisions of $28 million for fines and penalties are no longer required and have been released. Further details can be found in the Financial Review.

Year on year, the average US dollar to tenge rate was broadly flat with an average rate of 146.62 KZT/$ in 2011 compared to a rate of 147.35 KZT/$ in 2010.

Cash costs

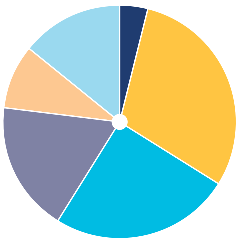
The gross and net cash cost metrics are used as a measure of the cost efficiency of Kazakhmys Mining's copper operations, and therefore the costs and revenues associated with the Mizek and Central Mukur gold mines are excluded from their calculation. The 2011 gross and net cash costs include the electricity purchased from the captive power stations at cost.

The gross cash cost of copper rose to 249 USc/lb in 2011, up from 203 USc/lb in 2010. This increase reflects the decline in copper grade from 2010 to 2011, the growth in the operating cost base and the reduction in copper cathode equivalent sales volumes compared to the prior year.

The net cash cost increased to 114 USc/lb in 2011 as the improved by-product credits, especially from silver bar and granule sales, were offset by the higher gross cash costs and lower copper cathode equivalent sales volumes. The National Bank's restrictions on gold bar sales in 2011 also impacted the net cash cost as by-product revenues from the sales of gold bar have been reduced. If gold sales had proceeded as planned then the net cash cost would have been approximately 108 USc/lb.

Kazakhmys Mining cash costs

Sales and distribution costs	4%
Administration	30%
Consumables and supplies	25%
Production salaries	18%
Transportation	9%
Other production costs	14%



Sensitivity analysis on prices

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

The approximate effect on the profit before taxation and finance items resulting from a 10% movement in the 2011 average realised commodity prices is shown in the following table. These sensitivities are based on the 2011 results and assume that all other variables remain constant.

	Average realised price during the year ended 31 December		%	Impact of 10% movement on profit[1]
	2011	2010	movement	$ million
Copper ($/t)	8,756	7,523	16.4%	237
Zinc concentrate ($/t)	1,215	1,133	7.2%	23
Silver ($/oz)	35.4	20.0	77.0%	45
Gold[2] ($/oz)	1,537	1,233	24.7%	19

[1] Profit before taxation and finance items.
[2] For sales of gold bars and doré.

Capital expenditure

Sustaining

Capital expenditure to maintain Kazakhmys Mining's operations in 2011 included the annual mining equipment investment programme which replaces aged and inefficient equipment in order to raise equipment availability and production efficiency at the mines.

In 2011, the programme also included a significant quantity of mining equipment to improve health and safety along with working conditions in the mines. This expenditure included the purchase of roof bolters and shotcreting equipment to reduce rock falls in the mines, and equipment to mechanise tasks which were previously performed manually. Mobile repair and refuelling equipment were ordered to reduce equipment downtime for fuelling and repair work in underground mines. Investments were made to acquire additional ventilation fans in order to further improve air quality.

The sustaining capital expenditure programme also included investment in maintaining output at the concentrators, smelters and auxiliary workshops within Kazakhmys Mining. To enhance the performance of the Balkhash smelter the furnaces were overhauled and obsolete equipment was replaced. Investments were also made into Kazakhmys Mining's transportation infrastructure with the repair of railway lines. Funding was allocated to develop the Division's information technology systems to gain efficiencies through the use of advanced data capture, modelling and communication systems.

In 2008, operations at the Konyrat mine were suspended as copper prices traded below $4,000 per tonne during the global economic downturn. With the strengthening of the copper price, work commenced in 2010 to assess the option of re-opening the low grade Konyrat open-pit mine. The mine is considered economically feasible at current copper prices and orders for mining equipment have been placed for the planned re-opening of the mine in the second half of 2012.

Expansionary

The West Nurkazgan underground mine commenced operations in February 2009 and work continues to develop the mine's infrastructure to enable a further ramp up of production, expand the associated concentrator's capacity and prepare new sections of the mine for future extraction.

Kazakhmys Mining also has a number of medium-sized mine projects which are progressing through the project assessment stages. The development of the Akbastau and Kosmurun deposits and the associated on-site concentrator moved to the feasibility stage in the second half of 2011. The results from the drilling work have enabled the 3D modelling of the deposits, and work will be conducted during 2012 to improve the categorisation of the reserves. The initial ore production from the extended Akbastau open-pit mine is expected in 2015, while first output from Kosmurun is expected in 2018.

The project to develop the second phase of the Zhomart mine is at the scoping study stage and during 2011 geological work progressed with the completion of 170,000 metres of drilling, from which the data is to be analysed in 2012. Further drilling work to define the resource will continue throughout 2012. The project is being prepared to move to the pre-feasibility stage in 2012 where the most suitable development option for the project will be selected, with a significant expansion to the current annual extraction volumes being considered. Anisimov Klyuch is a high grade copper ore body and the development at this deposit has reached the pre-feasibility stage, with engineering works expected to progress in 2012.

Exploratory drilling was also conducted at the East Nurkazgan deposit which is located close to the West Nurkazgan mine. Geological work on the East Nurkazgan deposit and other medium-sized projects will continue in 2012.

Bozymchak

The project to develop the gold-copper deposit located in Kyrgyzstan continued its construction phase. Open-pit mining will commence at the new deposit in early 2013 and will continue for five years at around 1 MT of ore per annum. Ore extraction from the underground mine will begin in 2018 and will also produce around 1 MT of ore per annum. Bozymchak is expected to have an average annual output of 7 kt of copper in concentrate and 35 koz of gold in concentrate over the life of the mine.

Site preparation works have progressed with the construction of infrastructure for the mine and processing plant. Delays related to the civil disturbances in Kyrgyzstan in 2010 together with changes to the project scope, including a new access road, will bring the total cost of the first stage of the project to around $300 million.

Bozshakol

The Bozshakol project completed its feasibility study in August 2011 and the Board approved the development of the mine and the associated infrastructure, which is expected to cost in the region of $1.8 billion. The project will be fully funded by the $2.7 billion facility obtained in 2010 from the China Development Bank and Samruk-Kazyna.

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

A 25 MT per annum concentrator is being constructed, producing 87 kt of copper in concentrate per annum in the first 15 years, with gold, silver and molybdenum as by-products. During the initial 14 years, a 5 MT per annum clay plant will also operate in addition to the concentrator, contributing a further 16 kt of copper in concentrate per annum. The first copper from Bozshakol is expected to be produced in 2015.

Alsim Alarko Sanayi Tesisleri (Alarko) was appointed in 2011 as the project's EPC contractor for the construction of the Bozshakol processing plant as they bring a strong track record in executing similar projects and have already operated successfully in Kazakhstan. Alarko commenced work on the project in the fourth quarter of 2011.

Basic engineering work for the project was completed in June 2011 and the focus has now moved to the project's definitive estimate which is planned to be completed in the first half of 2012. The long-lead items, namely the mills and drive systems, have already been manufactured and are being held in storage until they are required on site. Early construction work to develop the necessary infrastructure such as power and communications at the site also commenced in the second half of 2011.

Aktogay

The Aktogay copper ore deposit which is located in the east of Kazakhstan will be developed as an open-pit mine including an on-site concentrator. The deposit has a management estimated mineable oxide resource containing 119 MT of ore with a 0.37% copper grade, and a sulphide resource of 1,148 MT of ore with a 0.38% copper grade. Overall, the deposit contains nearly 5 MT of copper along with some minor molybdenum and silver by-products. The project is forecast to have annual production of around 100 kt of copper in concentrate, which supports a mine life of approximately 40 years.

The pre-feasibility study that has been completed on the project includes work on the exploration, metallurgical tests and engineering studies. The project also benefits from the infrastructure which has been developed at the site with a power transmission line, railway access and camp accommodation in place.

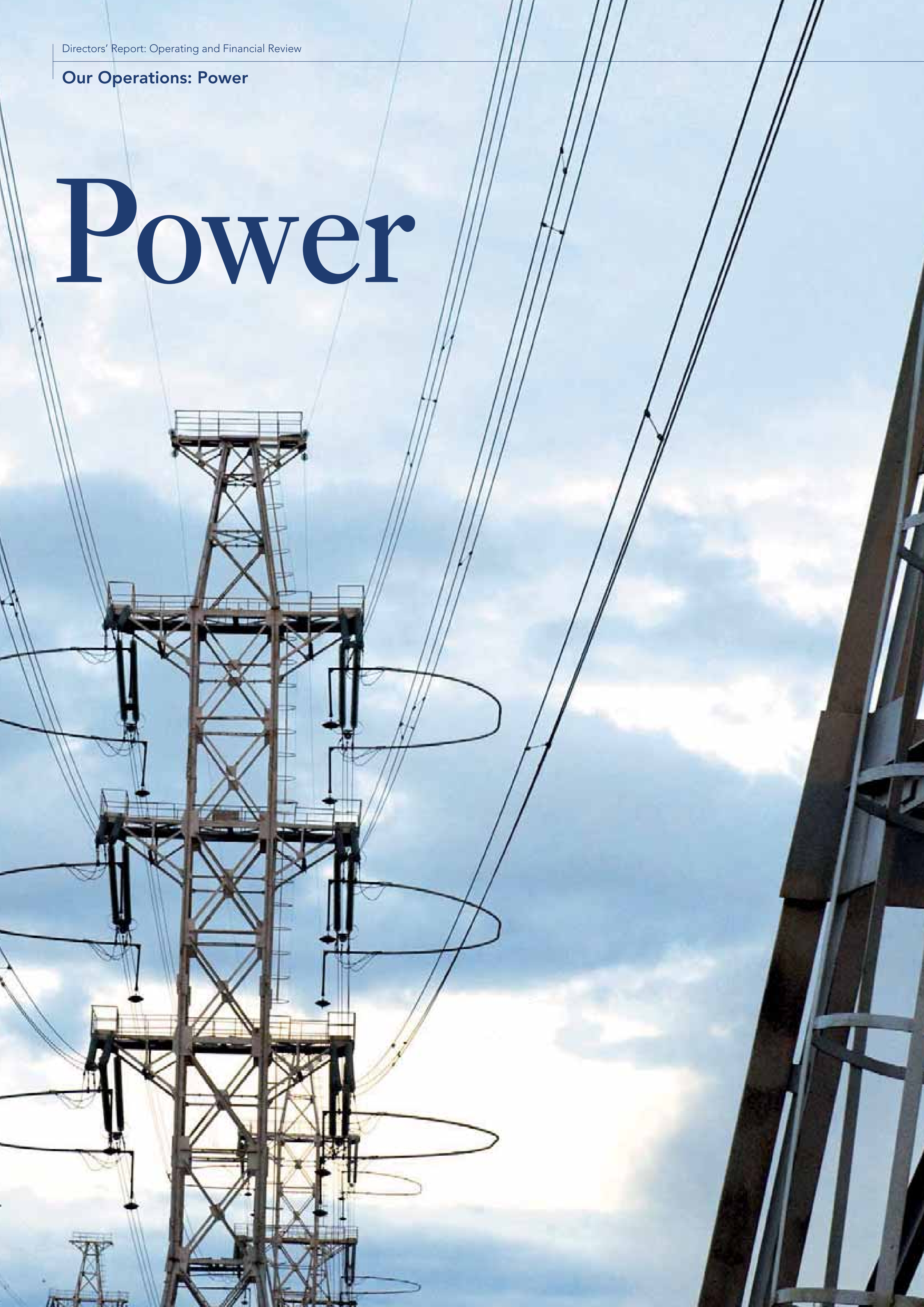
In August 2011, the Board approved the progression of the project to the feasibility stage and Kazakhmys has appointed Ausenco Limited as the study contractor, with the feasibility study expected to be completed by the end of 2012.

The project will initially develop the deposit's oxide resource which is located above the sulphide ore body. Basic engineering on the oxide ore processing plant has commenced and is scheduled to be completed in the first half of 2012. Site works for the development of the oxide resource are planned to commence in the second half of the year with mining of the oxide ore body commencing in late 2013.

The feasibility study for the development of Aktogay's sulphide resource will benefit from the work conducted on the Bozshakol project due to the similarities between the two large scale, relatively low grade, open-pit mines. The construction phase for development of the sulphide resource will take around three years to first production. Should the Aktogay project be approved for development, construction is expected to cost between $1.5 and $2.0 billion.

On 16 December 2011, funding for the project was secured with a loan facility signed with the China Development Bank for $1.5 billion, with the funds available for draw down following the satisfactory completion of the feasibility study.

Power



2011 Highlights

Net power generated (Ekibastuz GRES-1)

12,697 GWh

Net power generated (Captive Power Stations)

5,578 GWh

Key achievements

- Kazakhmys Power Division's EBITDA 16% higher
- Ekibastuz GRES-1's Unit 8 rehabilitation due for completion at the end of 2012
- Strong cash generation used to fund capital expenditure
- 15% increase in net power generated by Ekibastuz GRES-1

Review of Kazakhmys Power

Kazakhmys Power includes the Group's three captive heat and power stations and Ekibastuz GRES-1, in which Kazakhmys has a 50% interest. The captive power stations were previously reported within Kazakhmys Copper. The Maikuben West coal mine, which was part of the Power Division throughout 2010, was sold in May 2011.

The Ekibastuz GRES-1 coal-fired power station currently has a generation capacity of 2,500 MW and a modernisation programme is in progress to return the power station to its nameplate capacity of 4,000 MW. Under the agreement reached with Samruk-Kazyna, which holds the remaining 50% interest in the power station, Kazakhmys is responsible for the management of the power station until 2015, after which Samruk-Kazyna will have the right to appoint the management team for the following five years.

The Group's three captive power stations are located in Karaganda, Balkhash and Zhezkazgan and have a combined installed capacity of 1,025 MW. The Balkhash and Zhezkazgan heat and power stations supply energy for Kazakhmys Mining's operations in these regions and provide heat and power to the local communities. The Karaganda heat and power station supplies energy to Kazakhmys Mining's operations in the region, meets the shortfall in electricity supply for the mining operations in Zhezkazgan and Balkhash and sells surplus generation to third parties.

Market overview

Demand

In 2011, 90% of Ekibastuz GRES-1's electricity sales volumes were made to external customers based in Kazakhstan, with the remaining output exported to Russia. Ekibastuz GRES-1 sells the majority of its power under annual contracts to its customer base of industrial users, traders and electricity wholesalers.

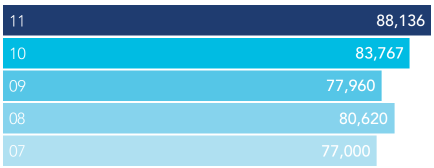
The captive power stations sold 2,381 GWh of electricity to domestic third parties in 2011, or 43% of the power stations' total sales volumes, with the balance being sold internally to Kazakhmys Mining for production activities.

Mainly due to strong oil and commodity prices, particularly in the first half of 2011, Kazakhstan is expected to have recorded solid economic growth in 2011 with industrial production forecast to have increased by 4% and real gross domestic product by 8%. The growth in the local economy supported demand for power, with domestic electricity consumption increasing to 88,136 GWh, up 5% from the prior year. Demand for electricity in Kazakhstan is anticipated to continue to expand in 2012 as domestic industrial production is forecast to grow by 3%, alongside increasing residential demand.

Demand for electricity in Russia, where Ekibastuz GRES-1 sells surplus power, grew in 2011 as industrial production rose by 5%. Ekibastuz GRES-1's electricity sales to Russia were 42% above the prior year as extended contract negotiations for the 2010 supply agreement with JSC Inter Rao UES meant that sales only took place in the second half of 2010, whereas sales have been made throughout 2011. Ekibastuz GRES-1's current Russian sales agreement, which provides considerable flexibility over the volume of power sold into Russia, will expire in March 2012, however, negotiations are underway to renew the agreement.

Our Operations: Power – continued

Kazakhstan domestic power consumption (GWh)



Source: KEGOC

Supply

Generation volumes in Kazakhstan grew by 5% to 86,203 GWh in 2011 with the higher electricity demand from the domestic market. The incremental supply mainly came from existing producers. The shortfall between domestic electricity generation and consumption volumes in Kazakhstan was mainly satisfied by additional output from the hydro power stations in Kyrgyzstan which usually supply power to the south of Kazakhstan from March to September, depending upon the extent of the flood season. The increase in the volume of electricity imported from Kyrgyzstan was agreed by the Governments of Kazakhstan and Kyrgyzstan, reflecting the lack of spare generation capacity in Kazakhstan to cover peak electricity loads. No major additional capacity is expected to be available in Kazakhstan until 2013 at the earliest.

Ekibastuz GRES-1 increased domestic sales volumes by 1,219 GWh or 12% compared to the prior year due to the growth in domestic demand for electricity and prolonged maintenance work at the neighbouring power stations GRES-2 and Aksu GRES in the second half of 2011. Sales volumes to Russia were 372 GWh higher as the agreement for the export of electricity volumes was in place for the whole of 2011. Sales were made to Russia during periods when demand in Kazakhstan declined. Ekibastuz GRES-1's share of Kazakhstan's generation market grew to 15.5% in 2011, above the 14.2% achieved in 2010, supported by the higher sales volumes in 2011.

Electricity sales volumes made by the captive power stations in 2011 were in line with the prior year, although the sales mix changed with 43% of volumes made to external customers as opposed to 38% in 2010. The increase in external sales was mainly due to lower electricity requirements within Kazakhmys Mining, as the Division's East Region purchased more electricity from the neighbouring hydro power generators to take advantage of lower transmission costs, enabling the Karaganda power station to sell a greater volume externally.

The captive power stations' share of Kazakhstan's generation market was 7.5% in 2011, down from 7.8% in the prior year, as generation volumes at the stations declined marginally while overall generation volumes in Kazakhstan increased.

The Kazakhmys Power Division's combined gross electricity generation volumes of 19,854 GWh in 2011 represented 23% of Kazakhstan's gross power generation, an increase from 22% in 2010.

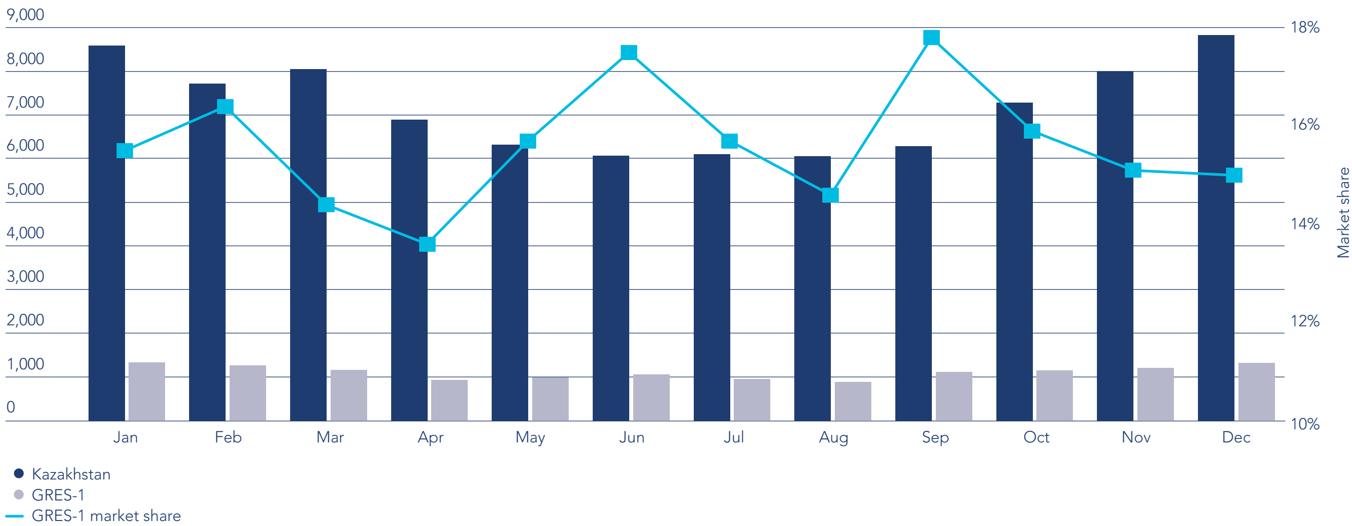
Tariffs

To encourage investment in the power sector, the Kazakhstan Government introduced a tariff regime in 2009 under which a ceiling tariff was set for each group of generators from 2009 to 2015, subject to levels of capital investment. In 2011, Ekibastuz GRES-1 received approval for a ceiling tariff of 5.60 KZT/kWh, a 20% increase from the ceiling tariff for 2010 of 4.68 KZT/kWh. The ceiling tariff is expected to remain at current levels during the first quarter of 2012, as agreed with the Ministry of Industry and New Technologies.

The realised tariffs generated from Ekibastuz GRES-1's export sales to Russia increased by 20% from the prior year to 4.41 KZT/kWh in 2011, as the terms of the sales to Russia were renegotiated to link the price received to the Russian spot market following the partial de-regulation of the Russian electricity market from 1 January 2011.

The captive power stations had a ceiling tariff of 4.10 KZT/kWh initially approved for 2011, but because the investment requirements were not fully met, the tariff was limited to 3.56 KZT/kWh. In 2012 the tariff ceiling for the captive power stations will be 4.55 KZT/kWh subject to the captive power stations meeting the investment requirements.

GRES-1 share in Kazakhstan power generation 2011



Source: KEGOC

Kazakhmys Power production summary

Ekibastuz GRES-1 production

	2011	2010
Net power generated (GWh)	12,697	11,065
Net power generated attributable to Kazakhmys[1] (GWh)	6,349	6,528
Net dependable capacity (MW)	2,199	2,171

[1] Represents 100% of the net power generated until the 50% disposal on 26 February 2010 and 50% of the net power generated to 31 December 2010 and for the twelve months to 31 December 2011.

Net power generated in 2011 by Ekibastuz GRES-1 was 15% above the prior year at 12,697 GWh. The growth in net generation volumes reflects the increased utilisation of the spare capacity at the power station's five 500 MW operating units as both domestic and export sales volumes were higher.

The net power generation attributable to Kazakhmys in 2011 was 3% below the prior year as the power station's underlying generation growth in 2011 was negated by the inclusion of two months of production on a 100% basis in 2010, prior to Samruk-Kazyna's acquisition of a 50% stake in the power station on 26 February 2010.

The power station's optimisation and modernisation programme continued in 2011 and technical improvements were made to increase the efficiency of the five operating units. The commissioning of an electrostatic precipitator (ESP) at Unit 5 in September 2010 is reflected in the 28 MW increase in Ekibastuz GRES-1's net dependable capacity in 2011.

Ekibastuz GRES-1's management completed the scheduled maintenance of units over the summer period and successfully reduced the number of hours lost to forced shutdowns.

Captive Power Stations production

	2011	2010
Net power generated (GWh)	5,578	5,589
Net dependable capacity (MW)	857	868
Heating (Gkcal)	3,716	3,874

Net power generated at the captive power stations during 2011 was in line with the prior year, although it would have been higher were it not for forced outages at three turbines in the fourth quarter of 2011 which have subsequently been restored to production. Operationally, the hours lost to forced outages were consistent with the prior year, however, efficiency improvements are expected to reduce the outage rate in 2012.

The Mining Division was supplied with 3,197 GWh of the net power generated in 2011, a decrease of 8% on the prior year usage of 3,477 GWh. This reduction is due to the East Region purchasing a greater volume of its power locally, enabling the Karaganda power station to sell a larger volume externally.

The net dependable capacity was marginally below the level achieved in 2010 due to the forced outage of a turbine at the Balkhash heat and power station in March 2011.

Reducing waste from our operations

The Power Division is exploring the possibility of selling ash-slag waste from the Ekibastuz GRES-1 power station for use as a raw material in cement and concrete construction. Chemical analyses confirm the ash is suitable for this purpose, which would reduce waste as well as the related storage and disposal costs. We have installed ash-extraction equipment and are analysing market demand. The bricks shown here are made from waste material in our copper processing.

Kazakhmys Power financial summary

$ million	2011	2010
EBITDA (excluding special items)[1,2]	176	152
Capital expenditure[1,2]	138	105
Sustaining[1,2]	60	50
Expansionary[1,2]	78	55

[1] Represents 100% of Ekibastuz GRES-1's results until the 50% disposal on 26 February 2010 and 50% for the period to 31 December 2010 and for the twelve months to 31 December 2011.

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

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

Ekibastuz GRES-1 and Maikuben West coal mine

$ million (unless otherwise stated)	2011	2010
Sales revenues	258	261
Electricity generation[1]	233	202
Coal[2]	25	59
Average tariff price (KZT/kWh)	5.38	4.49
Domestic sales	5.48	4.56
Export sales	4.41	3.67
Average cash cost (KZT/kWh)	1.82	1.61
EBITDA (excluding special items)[1,2]	162	144
Capital expenditure[1,2]	101	86
Sustaining[1,2]	23	31
Expansionary[1,2]	78	55

[1] Represents 100% of Ekibastuz GRES-1's results until the 50% disposal on 26 February 2010 and 50% for the period to 31 December 2010 and for the twelve months to 31 December 2011.

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

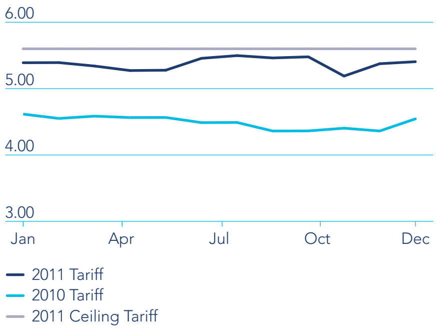
Revenues

On a 100% basis, revenues generated by the Ekibastuz GRES-1 power station rose by 37% in 2011 compared to the prior year as electricity sales volumes increased by 14%. Additionally, revenues were assisted by a 20% growth in the weighted average realised tariff compared to the prior year.

The revenue attributable to Kazakhmys from electricity sales was 15% above the prior year despite the impact of the reduction in Kazakhmys' ownership in Ekibastuz GRES-1 from 100% to 50% on 26 February 2010, largely mitigated by increased tariffs and sales volumes in 2011.

With the robust domestic demand for electricity, Ekibastuz GRES-1 was able to increase domestic tariffs close to the ceiling limit from the start of 2011 and maintain that level throughout the year. With the higher ceiling tariff for 2011, the average realised domestic tariff in 2011 was 5.48 KZT/kWh, or 98% of the ceiling tariff, a 20% increase from the average realised domestic tariff of 4.56 KZT/kWh in 2010.

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



Ekibastuz GRES-1's average realised tariff in 2011 was 4% below the ceiling tariff mainly as the tariffs for Russian sales are lower than that for domestic sales to reflect transmission costs borne by the customer, and also as the Russian tariffs, in tenge terms, were impacted by the devaluation of the rouble.

Revenue from coal sales were below the prior year, as the Maikuben West coal mine was sold in May 2011.

EBITDA (excluding special items)

Ekibastuz GRES-1's EBITDA attributable to Kazakhmys was 13% above 2010. EBITDA on a 100% basis was 42% higher than the prior year as the strong growth in income exceeded the 30% increase in total cash operating costs.

Total cash operating costs were driven higher as expenditure on coal, which comprises more than 50% of Ekibastuz GRES-1's cash costs, rose by 27%. The higher coal costs are due to the increase in coal consumption as generation volumes grew and as coal prices were 11% above the prior year. Ekibastuz GRES-1 purchases around 80% of its coal requirements from the Bogatyr coal mine, which is located 25 km to the east of the power station, and is 50% owned by Samruk-Kazyna, thereby securing certainty of supply.

Prices for other fuels such as mazut and diesel consumed by the power station rose sharply, while the higher generation volumes and tariff increases imposed by the regulatory authorities led to an increase in emission charges, water and distribution costs. Repair expenses rose with the cost of spare parts escalating and as the volume of maintenance work increased to maintain the higher utilisation of the power station.

Employee remuneration rose by 16% following inflationary pay increases made to staff in January 2011 and additional bonus payments being awarded for the strong operational performance at the power station in 2011. Administration costs excluding depreciation and employee costs were 34% above 2010 levels due to additional social payments being made to develop infrastructure in the local community.

Average cash cost

The 30% increase in total cash operating costs at Ekibastuz GRES-1 was partially offset by higher generation volumes, with the average cash cost rising by 13% from the prior year to 1.82 KZT/kWh. The per unit cash cost increase is due to price rises for coal and fuel oil, higher emission charges, distribution and water costs.

Capital expenditure

Sustaining

Ekibastuz GRES-1 operates a cyclical maintenance programme for the five 500 MW units which are currently operating at the station. As part of this programme, the second phase of the overhaul of Unit 3, which involved the replacement of boiler heating surfaces, repair of the turbine and improvements to the unit's efficiency, was completed in August 2011.

Annual maintenance was also conducted on Units 4, 5, 6 and 7 which required shorter-term outages. Capital expenditure included work to maintain the power station's ash disposal pipes and ash dump along with modifications to the power station's fuel storage facilities. Repairs were made to the low and high pressure rotors as part of an ongoing rotor overhaul programme to improve the performance of the existing units.

Maintenance is usually planned to coincide with the summer period when demand levels are lower. In 2012, Unit 4 will undergo a major overhaul to modernise and extend the operational life of the unit, and maintenance will also be conducted to increase the capacity and extend the operating life of Unit 7 ahead of further overhaul work scheduled for 2013.

Expansionary

Economic conditions remain favourable for the expansion of Ekibastuz GRES-1's generation capacity to meet the growing demand for electricity in Kazakhstan. The programme to restore the nameplate capacity of the power station to 4,000 MW continued in 2011 with work on the rehabilitation of two of the three dormant units. Kazakhmys Power has strengthened its internal resources to manage these projects through hiring a number of experienced personnel, and is also working closely with external consultants and contractors.

The rehabilitation of Unit 8, which has a generation capacity of 500 MW, started in 2009 and remains on target for the unit to be operational by the end of 2012. The majority of the dismantling work has been completed and the focus in 2011 was on the repair and restoration of the majority of the unit's boiler, turbine, auxiliary equipment and fuel handling equipment which had been cannibalised after the unit ceased operation in 1995. The unit's control and safety systems will also be modernised so that it operates in line with international standards.

The rehabilitation of Unit 2, which also has a generation capacity of 500 MW, started in late 2010 and is more extensive than the Unit 8 project as most of its parts were cannibalised for other units after it was shut down in 1995. The project is moving ahead with design and dismantling works. Prepayments have been made to suppliers for turbines and boilers, while project design work is underway and is expected to be completed in 2012. It is planned that Unit 2 will be operational by 2014, expanding Ekibastuz GRES-1's capacity to 3,500 MW.

To improve the environmental footprint of the power station, Ekibastuz GRES-1 is implementing a programme to install ESPs to the plant's generators to reduce ash emissions to international benchmark standards and well below the levels when Kazakhmys acquired Ekibastuz GRES-1 in May 2008. Under this programme of work, an ESP was successfully commissioned for Unit 5 in September 2010 and Unit 6's ESP was installed in December 2011 with commissioning work to continue in early 2012.

Dismantling work for the installations of ESPs has begun at Units 4, 7 and 8 with the ESPs expected to be operational for Unit 4 in 2012, Unit 8 at the end of 2012 and Unit 7 in the second half of 2013. ESPs will also be installed at Units 2 and 3 in 2013 and 2014 respectively.

Captive Power Stations

$ million (unless otherwise stated)	2011	2010
Sales revenues	168	141
Electricity generation	131	110
Heat and other	37	31
Average realised electricity tariff price (KZT/kWh)	3.42	2.89
Third-party sales	3.50	2.70
Intercompany sales	3.37	2.99
Average cash cost (KZT/kWh)	2.76	2.35
EBITDA (excluding special items)	14	8
Capital expenditure (sustaining)	37	19

Revenues

The captive power stations' revenues were $27 million above the prior year at $168 million in 2011. Revenue from electricity generation benefited from the 30% increase in tariffs for third-party sales with the increase in the ceiling tariff in 2011. The rise in the tariff for internal sales reflects the increase in the cost of energy supplied by the Balkhash and Zhezkazgan stations which is above that from Karaganda. While total sales volumes were flat, the percentage of sales to third parties, which are made at a higher tariff than internal sales, comprised 43% of the total sales volumes, up from 38% in the prior year. Revenues from intercompany electricity, heat and other sales totalled $104 million in 2011, above the $95 million recorded in the prior year mainly due to the rising cost of operations.

Heating revenues increased with a 17% rise in the average heat tariff and a 1% increase in heat sales volumes.

EBITDA (excluding special items)

The financial performance of the captive power stations improved in 2011 with a $6 million increase in EBITDA to $14 million for 2011 compared to the prior year.

The $27 million growth in revenue offset the 32% increase in the cost of coal, which is supplied by the Borly coal mines operated by Kazakhmys Mining. Employee costs at the captive power stations were higher in 2011 as inflation-linked pay increases and higher bonus payments were awarded. Distribution costs also increased as KEGOC, Kazakhstan's national grid operator, raised its transmission tariffs.

Average cash cost

The average cash cost for electricity generation from the captive power stations rose by 17% to 2.76 KZT/kWh compared to 2.35 KZT/kWh in 2010. The rise in the average cost of electricity generation is due to cost inflation for key inputs in the generation process such as coal and fuel, along with employee costs, whilst sales volumes remained flat.

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

Capital expenditure

Capital expenditure at the captive power stations was focused on the maintenance of existing boilers and turbines, in particular at the Balkhash and Zhezkazgan stations, in order to sustain the heat and power plants' existing capacity. Maintenance work was conducted on the ash disposal ponds at Karaganda as they require extensions to cater for future production from the power station.

In 2012, Kazakhmys plans to order three new turbines, one for each of the captive power stations, to replace turbines which are reaching the end of their economic lives.

Other Businesses

Review of Kazakhmys Petroleum

$ million	2011	2010
EBITDA (excluding special items)	(1)	(1)
Capital expenditure (expansionary)	20	37

Kazakhmys Petroleum, which held the exploration rights to a 602 km^2 oil and gas block in western Kazakhstan, was disposed by the Group on 23 December 2011 for net proceeds of $100 million.

In 2011, the fifth deep well was drilled, reaching its target depth of 5,200 metres in May 2011, after which testing commenced. Testing was also conducted during 2011 on the two most promising targets, the third and fourth deep wells, but, after initially recording oil inflows, in late June the wells' pressure dropped significantly faster than was initially anticipated.

The adverse results from the drilling programme on the deep wells led to the Group recognising an impairment charge of $444 million in respect of Kazakhmys Petroleum which has been classified as a special item, the details of which can be found in the Financial Review. Following an assessment of the funding options for the continued exploration of the oil and gas field in July 2011, and the drilling results received from the exploration work, the Board determined that Kazakhmys Petroleum should be sold.

In the second half of the year, to comply with the terms of the exploration licence, and also in accordance with the sale and purchase agreement, Kazakhmys Petroleum continued the drilling programme on the sixth and seventh deep wells until the transaction completed in December 2011. The drilling programme costs were $64 million in 2011 however, this was offset by $44 million of oil revenues received during testing. In the prior year, revenue from oil sales was $3 million.

Review of MKM

MKM is the Group's downstream copper business, which produces and sells copper and copper alloy semi-finished products. Based in Germany, the business is structured in three sections: wire products, flat products (strips, plates and sheet) and tubes and bars. The Group previously determined that MKM was not a core business as it was inconsistent with the Group's geographic and strategic focus and classified it as 'held for sale'. At the 2011 year end, the business remains classified as 'held for sale'.

MKM financial summary

$ million (unless otherwise stated)	2011	2010
GVA[1] (€ million)	162	146
Wire section (€ million)	38	35
Flat section (€ million)	80	72
Tubes and bars (€ million)	44	39
EBITDA (excluding special items)	26	81
Capital expenditure	16	14
Sustaining	12	14
Expansionary	4	–

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

GVA

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

MKM successfully grew GVA in 2011 for all three of its product sections, despite the challenging economic conditions in Europe reducing sales to certain countries. MKM recorded a 5% growth in sales volumes to Germany, its major market, and management pursued a strategy of focusing on higher margin products leading to an increase of 7% in GVA per tonne compared to 2010.

The performance of MKM was achieved despite working capital restrictions in the first half of 2011 as the copper price traded above $9,000 per tonne and, due to MKM's risk management policies, orders were rejected where insufficient debtor insurance was available.

Within the wire section, sales volumes of wire rod were 8% higher than in 2010, with strong demand in particular from Germany, and MKM was able to raise the GVA per tonne by 8%. Sales volumes of drawn wire were marginally down on the prior year as orders from the solar business fell, however, higher pricing resulted in a 4% increase in GVA compared to the prior year. GVA from flat products rose by €8 million as plates and sheets performed strongly, driven by higher volumes and an improved product mix. Sales of tubes in 2011 benefited from MKM's shift in its product portfolio from sanitary tubes, which in periods of high copper prices are subject to substitution, to industrial tubes. GVA from bars rose slightly from that in 2010, as lower European demand was offset by higher pricing.

EBITDA (excluding special items)

MKM's EBITDA declined from $81 million to $26 million in 2011, however, as these figures include IFRS inventory adjustments of $(14) million in 2011 and $43 million in 2010, reflecting movements in the copper price, this measure does not fairly represent the business' underlying performance. Excluding the impact of the IFRS adjustments and expressed in Euros, MKM's EBITDA rose to €29 million, an increase of 4% compared to 2010, due to the growth in sales. Cost increases were partly volume driven and MKM was also impacted by higher energy prices, repair and staff costs.

Capital expenditure

In 2011, MKM has invested in expanding its strip product range to improve margins within the business. The largest item of sustaining expenditure in 2011 was on the wire rod section where MKM experienced outages during the year, however, all product sections incurred some expenditure in accordance with MKM's ongoing maintenance programme.

Review of ENRC

Kazakhmys has a 26% interest in ENRC PLC, a diversified natural resources group with significant operations in Kazakhstan. The Group's holding in ENRC had a market value as at 31 December 2011 of $3,289 million and during 2011 the Group received dividends of $113 million from ENRC, above the $62 million received in 2010.

In 2011, ENRC's revenues grew by 17% to $7,705 million and EBITDA (excluding special items) rose by 7%. Higher prices for ENRC's principal products were partially offset by a 24% rise in total operating costs (excluding MET, depreciation, amortisation and impairments). When analysed by division, the Iron Ore Division reported a 32% rise in EBITDA, overtaking the Ferroalloys Division as ENRC's most profitable division. The Ferroalloys Division experienced declining profit margins which resulted in EBITDA declining by 15%. ENRC's four other operational divisions reported higher EBITDA contributions in 2011.

ENRC EBITDA (excluding special items)[1] by Division

$ million	2011	2010
Ferroalloys	1,342	1,575
Iron ore	1,619	1,226
Alumina and aluminium	347	280
Other Non-ferrous	74	67
Energy	360	308
Logistics	95	68
Corporate	(122)	(52)
ENRC Group	3,715	3,472
Kazakhmys' share of EBITDA (excluding special items) of ENRC	966	903

[1] The 2011 results for ENRC are unaudited and exclude MET.

The Ferroalloys Division operates chrome and manganese mines along with processing plants which produce ferrochrome and other ferroalloys. The Division operated at close to capacity in 2011, but output was slightly below 2010 mainly due to unscheduled repair works at the Aksu facility in 2011 and the suspension of production at the Tuoli facility. The Division's revenues were 3% higher in 2011 as prices for ferroalloy products rose, however EBITDA was lower than in the prior year as profitability was impacted by rising input material prices, increased electricity, labour, distribution, social and administration costs.

The Iron Ore Division extracts iron ore from mines in Kazakhstan and then processes the iron ore into concentrate and pellets for sale. The Division also incorporates exploration and development assets in Brazil. While iron ore extraction volumes were consistent with the prior year, both iron ore saleable concentrate and iron ore pellet production declined by 5% reflecting the impact of transportation restrictions and unscheduled maintenance work conducted at processing facilities in 2011. The Division's EBITDA rose by 32% in 2011, despite a reduction in sales volumes, as average prices for iron ore products increased by 37% and reached an all-time high in the first half of the year. The Iron Ore Division experienced similar cost pressures to those noted for the Ferroalloys Division in 2011 which partially offset the growth in revenue.

The Alumina and Aluminium Division operates bauxite mines which feed an alumina refinery and an aluminium smelter which are supported by a captive power station. Alumina production which is operating close to capacity was marginally above 2010, however aluminium production was 10% higher, assisted by the full year impact of phase 2 of the smelter's expansion from 125 kt to 250 kt completed in May 2010. The 24% growth in the Division's EBITDA in 2011 reflects a 10% rise in the average LME aluminium price which drives pricing of ENRC's alumina and aluminium sales and a 13% increase in aluminium sales volumes when compared to 2010. Total operating costs in the Division rose with the higher sales volumes as well as an increase in input material prices, labour and administration costs.

The Other Non-ferrous Division is predominately based in the Democratic Republic of Congo and Zambia, and produces and processes copper and cobalt ore. The Division also includes the SABOT logistics business based in Africa. Saleable cobalt metal production increased by 19% mainly due to higher ore grades and saleable copper metal production grew by 46% reflecting the additional capacity of the heap leach operations and the new cobalt SX/EW plant which was commissioned in the last quarter of 2010. The Division's EBITDA grew by 10% due to the higher prices for copper metal and increased cobalt and copper sales volumes. The Division's cost base increased as exploration work ramped up throughout the African operations and the operating costs of the Division are expected to improve on a per unit basis as the scale of operations increases.

The Energy Division operates the Vostochny coal mine and the coal fired power station at Aksu making it a significant producer of coal and electricity in Kazakhstan. The Energy Division supplied 72% of the electricity generated in 2011 to other operating divisions within the ENRC Group. Coal production was unchanged from the prior year, while electricity generation was slightly above 2010 with the long-term shut down of Unit 6 with a capacity of 325 MW for reconstruction work in April 2011 offset by reduced general maintenance at the power station and the commissioning of a new unit with a capacity of 325 MW in June 2011. While sales volumes were broadly flat on 2010, the Division's EBITDA was 17% higher, benefiting from improved coal prices and electricity tariffs. The unit cost of coal and electricity sales rose with higher purchase prices for materials and spare parts, labour costs, increased stripping volumes at the coal mines and higher ecological payments.

The Logistics Division provides transportation and freight forwarding services to other ENRC Divisions and third parties. The volume of transported products was consistent with the prior year and the volume of railway line repairs fell, however total revenues rose by 30% benefiting from the rental of third party wagons to the Ferroalloys and Alumina and Aluminium Divisions. The Division's EBITDA rose by 40% reflecting the higher revenues generated in 2011.

Financial Review

A solid platform for financial growth

In 2011, the Group has been highly profitable with the Mining and Power divisions reporting EBITDA margins in excess of 50%. Cash generation in the year has returned the Group to a net funds position, which, together with the long-dated financing secured for the major growth projects, gives Kazakhmys the financial flexibility to deliver on its strategy.

Matthew Hird
Chief Financial Officer

Basis of preparation

The financial information has been prepared in accordance with IFRS using accounting policies consistent with those adopted in the financial statements for the year ended 31 December 2010, except for those Standards and Interpretations required to be applied for the first time for the year ended 31 December 2011. The application of these new standards has not had a retrospective impact and therefore no restatement of the comparative financial information is required.

As explained in note 6 of the consolidated financial statements, MKM and the Maikuben West coal mine, within the Kazakhmys Power Division, which represent separate business units of the Group, were classified as held for sale at 31 December 2010. MKM continued to be treated as a discontinued operation throughout 2011, while the Maikuben West coal mine and Kazakhmys Petroleum were classified as discontinued until these businesses were disposed on 17 May 2011 and 23 December 2011, respectively. Accordingly, MKM represented the only asset held for sale as at 31 December 2011.

In the year ended 31 December 2010, following the disposal on 26 February 2010 of 50% of the Ekibastuz GRES-1 power station, the major asset within the Kazakhmys Power Division, the retained 50% interest in Ekibastuz GRES-1 was classified as a continuing operation and equity accounted as a joint venture. Prior to 26 February 2010, Ekibastuz GRES-1's results were consolidated as a 100% subsidiary but the business was classified as a discontinued operation.

The income and expenses of the held for sale businesses are reported separately from the continuing operations of the Group. The assets and liabilities of these businesses are also separately shown within the consolidated balance sheet as single line items within current assets and current liabilities, as held for sale. The consolidated cash flow statement includes the cash flows of the continuing and discontinued operations for both the current and prior periods.

Income statement

A summary of the consolidated income statement is shown below:

$ million (unless otherwise stated)	2011	2010
Continuing operations		
Revenues	3,563	3,237
Operating costs (excluding depreciation, depletion, amortisation, MET and special items)	(1,791)	(1,529)
EBITDA from subsidiaries (excluding special items)	1,772	1,708
EBITDA from joint venture (excluding special items)	154	86
Segmental EBITDA (excluding special items) from continuing operations	1,926	1,794
Less: interest and taxes of joint venture	(26)	(28)
Special items:		
Less: additional death and disability benefits obligation charge	(146)	–
Less: impairment charge against property, plant and equipment	(11)	(13)
Add: impairment reversal against mining assets	7	–
Less: major social projects	–	(130)
Add: provisions released against inventories	19	18
Less: MET	(280)	(236)
Less: depreciation, depletion and amortisation	(264)	(268)
Operating profit	1,225	1,137
Share of profits from associate	466	522
Profit before finance items and taxation	1,691	1,659
Net finance expenses	(68)	(67)
Profit before taxation	1,623	1,592
Income tax expense	(221)	(203)
Profit for the year from continuing operations	1,402	1,389
Discontinued operations		
(Loss)/profit for the year from discontinued operations	(472)	61
Profit for the year	930	1,450
Non-controlling interests	–	–
Profit attributable to equity holders of the Company	930	1,450
EPS – basic and diluted ($)		
From continuing operations	2.63	2.60
From discontinued operations	(0.88)	0.11
	1.75	2.71
EPS based on Underlying Profit ($)		
From continuing operations	2.76	2.59
From discontinued operations	0.04	0.20
	2.80	2.79

Revenues and EBITDA (excluding special items)

The rise in commodity prices for the Group's major products led to higher revenues, despite lower sales volumes. The increase in revenues and a greater contribution from the Ekibastuz GRES-1 joint venture led to the Group's Segmental EBITDA (excluding special items) from continuing operations rising from $1,794 million in 2010 to $1,926 million in 2011.

Commodity prices for the Group's major products of copper, zinc, silver and gold, averaged 17%, 1%, 75% and 28% higher than the prior year respectively, which resulted in the Group's revenues rising by 10% to $3,563 million. Copper revenues from the sale of cathodes and rods were $2,570 million, $186 million above the prior year as strong copper prices, particularly over the first seven months of 2011, more than compensated for 24 kt of lower sales volumes. Zinc in concentrate production fell in 2011, leading to a reduction in revenues from $193 million in 2010 to $177 million in 2011. Silver, the Mining Division's largest by-product, generated $479 million of revenues, an increase of 77% from 2010, due to higher pricing in the year. Gold revenues fell by $86 million as a restriction on gold bar exports imposed by the National Bank in July 2011 prevented sales for the remainder of 2011. Gold bar sales are expected to resume in the first half of 2012.

Cost inflation in the mining sector and general inflation in Kazakhstan put considerable upward pressure on the cost of input materials, repairs and maintenance and ore transportation services. Salary costs, included within production and administration costs, were $544 million in 2011, a 31% increase from $415 million in 2010, reflecting the rising cost of retaining and attracting skilled workers in Kazakhstan and the introduction of a union negotiated collective pay rate for certain categories of workers. The Group's headcount remained largely unchanged between 2010 and 2011.

The factors described above, together with a 2% greater volume of ore extracted in 2011, resulted in the Group's production costs (excluding depreciation, depletion, amortisation, MET and special items) rising by 18%. The costs associated with the production of the gold bar built-up in inventory in the second half of 2011 were held in finished goods at the year end and will be charged to cost of sales when the gold is sold.

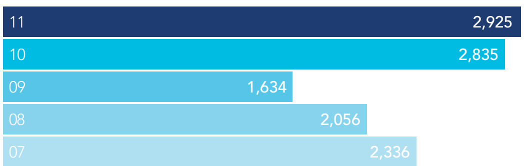
Administration costs (excluding depreciation and special items) were 15% higher than the prior year driven by inflationary pressures and a number of specific items incurred in 2011. The Group incurred costs associated with listing on the Hong Kong Stock Exchange in June 2011, legal expenses and fines and penalties relating to tax claims. The impact of these items was partially offset by the release of a provision for fines and penalties associated with an excess profits tax claim which the Group successfully defended in the courts. An additional charge was incurred for the death and disability benefits obligation at Kazakhmys Mining, where a change in legislation saw the entitlements for employees receiving payments for work-related injuries increase significantly.

The potential future cost, which is wholly attributable to the change in legislation, is $146 million and has been treated as a special item. A further $26 million has been charged for the interest component of the future obligations and revisions to the actuarial assumptions applied in determining the obligation which has not been treated as a special item.

In March and April 2011, the Group entered into a series of forward foreign exchange transactions to purchase tenge against the US dollar with a value of $40 million per month from April through to December 2011. The forward transactions were executed at rates averaging between 144.65 KZT/$ and 145.44 KZT/$ on a monthly basis. The purpose of the forward contracts was to hedge the impact on KZT denominated operating costs of the possible appreciation of the tenge against the US dollar. As at 31 December 2011 there were no open forward contracts.

The average US dollar exchange rate for the year ended 31 December 2011 was 146.62 KZT/$, compared to 147.35 KZT/$ in 2010. The closing US dollar exchange rate at 31 December 2011 was 148.40 KZT/$ compared to 147.40 KZT/$ at 31 December 2010.

Group EBITDA (excluding special items) ($ million)



Joint venture

The Group equity accounts for its 50% investment in the Ekibastuz GRES-1 joint venture.

The Group's share of EBITDA (excluding special items) from Ekibastuz GRES-1 increased from $86 million in 2010 to $154 million in 2011, as a result of the improved performance at the power station where electricity volumes grew by 15% and the average tariff rose by 20%. The prior year only included the results of Ekibastuz GRES-1 from 27 February 2010 when Ekibastuz GRES-1 became an equity accounted joint venture following the disposal of 50% of the business to Samruk-Kazyna.

As a result of the improved performance, the Group's share of profits, net of tax, from the Ekibastuz GRES-1 joint venture was $100 million compared to $38 million for the period from 27 February 2010 to 31 December 2010.

Special items

Special items are non-recurring or variable in nature which do not impact the underlying trading of the Group. The principal special items recognised within continuing operations are:

Operating related special items:

2011

- the Government of Kazakhstan enacted new legislation which significantly increased the entitlements payable to current and former employees who suffer a work-related injury. Based on a reassessment of the potential future costs associated with meeting this additional death and disability benefits obligation, Kazakhmys Mining has provided for a further $172 million in 2011, of which $146 million relates solely to the impact of the changes in the legislation and has been treated as a special item; and
- impairments included as special items are:
  - Property, plant and equipment – a charge of $11 million which primarily relates to the impairment of administrative land and buildings within Kazakhmys Mining which are not in use;
  - Mining assets – a credit of $7 million which mainly relates to a reversal of impairment provisions held against mining assets which were considered uneconomic in prior years and which are now being actively prepared for future extraction due to higher commodity prices; and
  - Inventories – a $19 million release of an impairment provision held against minor by-product inventories within Kazakhmys Mining to reflect improved market conditions for those by-products.

2010

- in the first half of 2010, the Group committed to fund major social projects in Kazakhstan at a cost of $130 million. The charge represented the full cost of the projects;
- in 2008, Kazakhmys Mining recognised an impairment loss in respect of stockpiled ore for which processing was considered uneconomic at the prevailing commodity prices. During 2010, the stockpiles were partially processed as commodity prices improved, and, as a result, an $18 million impairment provision previously recognised was released; and
- in 2010, social assets constructed by Kazakhmys Mining as part of the Group's social programme of $13 million were impaired as these assets were not deemed to be part of the cash generating unit of Kazakhmys Mining.

Tax related special items:

2011

- the additional death and disability benefits obligation recognised in the year of $172 million, of which $146 million has been treated as a special item, is deductible against taxable profits in the future when the death and disability payments are made. As a result, a deferred tax asset has been recognised in respect of the obligation, with $29 million in respect of the $146 million charge treated as a special item; and
- in 2011, the Group determined that the cost of delivering the major social projects in Kazakhstan will be deductible against taxable profits in the future, resulting in the recognition of a $26 million deferred tax asset at 31 December 2011. As the cost of these projects was considered a special item in 2010, the related tax credit has also been treated as a special item.

2010

- a provision for withholding tax of $98 million which was recognised at 31 December 2009, payable on unremitted earnings to be distributed from Kazakhmys LLC to settle an intercompany loan by way of dividend payments, was released in 2010. In the second half of 2010, as a result of an internal Group restructuring, the intercompany loan was settled by alternative means, such that no dividend was distributed by Kazakhmys LLC to settle it, and the corresponding withholding tax provision was no longer required; and
- an additional deferred tax charge of $16 million was recognised in 2010 as a result of a change in future tax rates in Kazakhstan. The future phased reduction in tax rates, envisaged under the 2009 tax legislation whereby the rate would be progressively reduced to 15% in 2014, was removed in the 2010 tax legislation, and instead the 2010 rate of 20% will be maintained for future years. The revised rate of 20% was therefore applied to the Group's long-lived assets in calculating the Group's deferred tax balances.

Total operating special items for continuing operations in 2011 amounted to $131 million compared to $125 million in 2010. Operating special items in respect of discontinued operations of $495 million (2010: $44 million) principally relate to the disposal of Kazakhmys Petroleum and the Maikuben West coal mine, part of Kazakhmys Power, and the impairment charge recognised to reduce MKM's carrying value to the net expected proceeds from a sale. These special items are discussed within the 'Discontinued Operations' section below.

Reconciliation of EBITDA (excluding special items) by operating segment

Consistent with other international mining companies, EBITDA (excluding special items) has been chosen as the key measure in assessing the underlying trading performance of the Group. This performance measure removes depreciation, depletion, amortisation and non-recurring or items variable in nature which do not impact the underlying trading performance of the Group. MET is also excluded from the EBITDA (excluding special items) key financial indicator, as the Directors believe that the exclusion of MET provides a more informed measure of the operational profitability of the Group given the nature of the tax as further explained in the 'Taxation' section.

Following the restructuring of the Group's operating assets in Kazakhstan undertaken during 2011, the Group's operating segments have changed from those previously reported at 31 December 2010. The Group is now managed in four separate business units: Kazakhmys Mining, Kazakhmys Power, MKM and Kazakhmys Petroleum until its disposal in December 2011.

Kazakhmys Gold is included within Kazakhmys Mining and the Group's captive power stations, previously within Kazakhmys Copper, are now included within Kazakhmys Power. The 2010 comparative figures have been presented on a consistent basis with the results for the year ended 31 December 2011.

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

$ million	2011	2010
Continuing operations		
Kazakhmys Mining	1,808	1,736
Kazakhmys Power[1]	168	94
Corporate Services	(50)	(36)
Total continuing operations	1,926	1,794
Discontinued operations		
Kazakhmys Power[2]	8	58
MKM	26	81
Kazakhmys Petroleum	(1)	(1)
Total discontinued operations	33	138
Segmental EBITDA (excluding special items)	1,959	1,932
Share of EBITDA of associate[3]	966	903
Group EBITDA (excluding special items)	2,925	2,835

[1] Kazakhmys Power EBITDA (excluding special items) includes the Group's share of EBITDA (excluding special items) of the joint venture, Ekibastuz GRES-1, for the full year ended 31 December 2011 and in 2010, for the period 27 February 2010 to 31 December 2010. Also included within Kazakhmys Power is the EBITDA (excluding special items) of the Group's captive power stations for the years ended 31 December 2011 and 31 December 2010. The EBITDA (excluding special items) of the Group's captive power stations was previously included within the EBITDA (excluding special items) of Kazakhmys Copper.

[2] In the year ended 31 December 2011, Kazakhmys Power EBITDA (excluding special items) includes the EBITDA (excluding special items) of the Maikuben West coal mine for the period to 17 May 2011, the date on which it was sold. The prior year includes 100% of the EBITDA (excluding special items) of Ekibastuz GRES-1 until the date of its partial disposal on 26 February 2010 and the EBITDA (excluding special items) of the Maikuben West coal mine for the year ended 31 December 2010.

[3] The share of EBITDA (excluding special items) of the associate excludes the MET of the associate.

Group EBITDA (excluding special items) for the year was $2,925 million, 3% higher than the prior year. Included within Group EBITDA is Kazakhmys' share of ENRC's EBITDA of $966 million, which is based on ENRC's published unaudited results for the year ended 31 December 2011.

Associate

The Group's 26% shareholding in ENRC, is equity accounted as an associate. The Group's share of EBITDA from ENRC is $966 million an increase of 7% over the prior year reflecting the improved operational performance of ENRC as higher sales volumes and prices compensated for the rise in costs over the year.

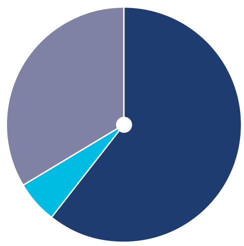
The Group's share of profits from ENRC recognised in the consolidated income statement for the year, net of tax, is $466 million based on the unaudited results of ENRC for the year ended 31 December 2011, which were published on 21 March 2012. ENRC's contribution to the Group has decreased from $522 million in 2010, despite commodity price rises and higher sales volumes in its key markets, as 2010 benefited from a one-off gain on the acquisition of a joint venture.

Dividends received from ENRC of $113 million during 2011 (2010: $62 million) have not been recognised in the consolidated income statement, but are netted off against the carrying value of the investment in ENRC in the consolidated balance sheet, in accordance with equity accounting principles.

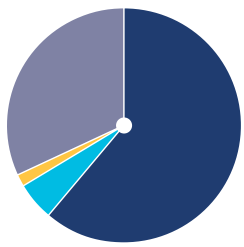
Based on the 2011 final dividend announced by ENRC on 21 March 2012 of 11.0 US cents per share, the Group should receive $37 million in June 2012.

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

2011	
Kazakhmys Mining	1,808
Kazakhmys Power	176
Other	(25)
Share of EBITDA of associate	966
Total	**2,925**



2010	
Kazakhmys Mining	1,736
Kazakhmys Power	152
Other	44
Share of EBITDA of associate	903
Total	**2,835**



Net finance items

Net finance expenses of $68 million for the year were largely unchanged on the prior year as an increased level of borrowing costs were capitalised to the development projects to which they relate. Included within the net finance expense is a net foreign currency loss of $13 million compared to $18 million in 2010.

The gross interest charge incurred on borrowings of $60 million was higher than the $39 million incurred in the prior year. The charge in 2011 includes $14 million in respect of the pre-export finance debt facility ('PXF'), which carries a margin of US$ LIBOR plus 1.25% and $46 million for the CDB/Samruk-Kazyna financing facilities, which incurs interest at US$ LIBOR plus 4.80%. The higher average debt outstanding from the draw downs under the CDB/Samruk-Kazyna financing facilities resulted in the Group's weighted average cost of borrowings increasing from 2.22% in 2010 to 3.32% in 2011, and as the balance outstanding on the lower margin PXF was reduced by $525 million during the year.

The Group's net interest charges incurred on borrowings recognised in the income statement during 2011 have reduced to $42 million from $47 million in the prior year. This charge excludes interest costs incurred on the CDB/Samruk-Kazyna financing facilities that have been capitalised to the cost of the Group's development projects to which the borrowings relate. A total of $28 million of interest was capitalised in 2011 compared to $6 million in 2010, reflecting the progression of the Bozshakol and Bozymchak projects and their related drawings under the CDB/Samruk-Kazyna financing facilities.

Taxation

In 2010, the Government of Kazakhstan introduced new tax legislation which removed the previously legislated phased reduction in CIT and maintained a flat rate of 20% for future years.

The table below shows the Group's effective tax rate as well as the all-in effective tax rate which takes into account the impact of MET and removes the effect of special items and non-recurring items on the Group's tax charge. The all-in effective tax rate excludes the effect of equity accounted earnings as these are derived from businesses that are not controlled by the Group and which are included in the consolidated income statement on a post-tax basis.

$ million (unless otherwise stated)	2011	2010
Profit before taxation from continuing operations	1,623	1,592
Add: MET	280	236
Add: special items	131	125
Less: share of profits from joint venture	(100)	(38)
Less: share of profits from associate	(466)	(522)
Adjusted profit before taxation from continuing operations	1,468	1,393
Income tax expense	221	203
Add: MET	280	236
Add: deferred tax asset on additional death and disability benefits obligation	29	–
Add: deferred tax asset on major social projects	26	–
Add: release of deferred withholding tax liability	–	98
Add/(less): tax effect of special items	2	(14)
Adjusted tax expense from continuing operations	558	523
Effective tax rate (%)	13.6	12.8
All-in effective tax rate[1] (%)	38.0	37.5

[1] All-in effective tax rate is calculated as the income tax expense plus MET and removing the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for MET, special items and other non-recurring items and the share of profits from the joint venture and associate.

Effective and all-in effective tax rate

In 2010, the income tax expense included the release of $98 million in respect of deferred withholding taxes whereas in 2011, the major tax credits totalled $55 million, arising from the recognition of deferred tax assets relating to the major social assets and the additional death and disability benefits obligation. The 2011 effective tax rate is marginally higher than the prior year as the profit before tax from continuing operations in the prior year benefited more from a tax credit compared to the current year whilst contributions from the equity accounted joint venture and associate profits, both of which are included on a post-tax basis, were similar across both years.

Excluding the special items and the contribution from equity accounted joint venture and associate profits, the Group's adjusted profit before taxation was $75 million higher compared to the prior year. The increased adjusted tax expense as a result of the 19% higher MET charge which has only been partially offset by the inclusion of the release of the provision for excess profits tax and lower non-deductible items in 2011, has led to the all-in effective tax rate rising marginally to 38.0% from 37.5% in 2010.

Mineral extraction tax
MET is a revenue tax based on the volume and metal content of extracted ore and global commodity prices. Over the course of the year, the metal content of extracted ore at Kazakhmys Mining has declined slightly, however given the increases in commodity prices, particularly for copper, the Group has recognised a higher expense of $280 million in relation to MET within cost of sales, compared to $236 million in 2010.

Excess profits tax
The conclusion of the tax audit for the years 2006 to 2008 inclusive did not identify any further excess profits tax liabilities for these years over and above payments which had already been remitted, neither did the tax audit for the years 2003 to 2005 inclusive, thereby confirming the tax authorities acceptance of the methodology applied by Kazakhmys LLC in calculating its excess profits tax liabilities for the years up to and including 2008. In addition, the Supreme Court's ruling in August 2011 upheld earlier court decisions which ruled that Kazakhmys LLC should not have been considered as an excess profits tax payer for these years. As a result of the tax audits and the Supreme Court ruling, the previously recognised provision for excess profits tax totalling $21 million, has been released as at 31 December 2011, along with the associated fines and penalties of $28 million which are included within administration expenses. The provision was recognised in previous years due to the uncertainties over the judgements that were made in respect of the methodology of computing excess profits tax. The release of the provision for excess profits tax reduced the Group's effective tax rate by 1.2%.

Transfer pricing
A provision of $26 million has been recognised as at 31 December 2011 (2010: $22 million) for transfer pricing exposures where external and intercompany sales contracts entered into during the year resulted in certain of the Group's profits being taxed twice in the UK and Kazakhstan due to inconsistencies between the transfer pricing legislation of both jurisdictions. The provision for transfer pricing exposures increased the Group's effective tax rate by 1.5% (2010: 1.4%).

Non-deductible items
The tax impact of non-deductible items was $38 million in 2011 (2010: $74 million) primarily relating to the accrual of additional tax liabilities with related fines and penalties raised in the tax audits for the years 2006 to 2008 inclusive, ongoing non-deductible business expenses and impairment losses at Kazakhmys Mining. These non-deductible items were partially offset by the reversal of fines and penalties associated with the excess profits tax provision that was released at 31 December 2011 (see above). In 2010, the most significant non-deductible item related to the cost of the major social projects of $130 million.The impact of the non-deductibility of these items increased the Group's effective tax rate by 2.2% in 2011 (2010: 4.7%).

Equity accounted earnings
The Group's interests in the earnings of ENRC and Ekibastuz GRES-1 are included, net of tax, in the consolidated income statement in arriving at profit before taxation, thereby reducing the Group's effective tax rate by 9.2% (2010: 9.9%).

Deferred income tax
In December 2011, the Group recognised a deferred tax asset relating to the cost of the major social projects in Kazakhstan of $26 million. According to Kazakhstan tax legislation, the cost of the projects will be deductible against taxable profits when the construction is complete and the assets are transferred to the relevant Government department. The recognition of this deferred tax asset reduced the effective tax rate by 1.5%.

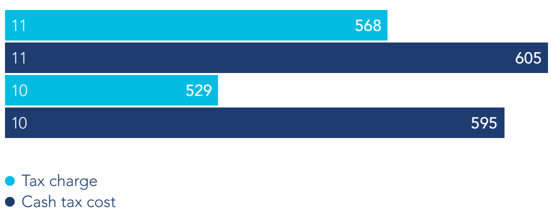
The additional death and disability benefits obligation recognised in the year of $172 million, of which $146 million has been treated as a special item, is deductible against taxable profits in the future when the death and disability payments are made. As a result, a deferred tax asset has been recognised in respect of the obligation, with $29 million in respect of the $146 million charge treated as a special item.

In 2010, the income tax expense for the year included a charge of $16 million in respect of deferred income tax which related to the new tax legislation which maintained corporate income tax in Kazakhstan at 20% beyond 2012, rather than the phased reduction in corporate income tax as previously envisaged under the legislation enacted in 2009. The deferred tax balances within the Group's Kazakhstan businesses were recalculated applying a flat rate of 20% in future years.

Withholding taxes
In 2010, the Group released a withholding tax provision of $98 million which was recognised for taxes payable on the unremitted earnings of subsidiaries in Kazakhstan, reducing the Group's effective tax rate by 6.2%. Following an internal Group restructuring, no dividends were expected to be remitted from these earnings and as a result, this provision was no longer appropriate.

Future tax rates
Future tax rates are materially affected by the application of corporate income tax and MET. The corporate income tax rate is frozen in Kazakhstan at 20% but as explained above, the Group's all-in effective tax rate will be dependent on copper prices in the future given the revenue based nature of MET.

Tax charge and cash tax cost – CIT and MET ($ million)



Discontinued operations

As explained above in the 'Basis of preparation', the Maikuben West coal mine, within the Kazakhmys Power Division, the Kazakhmys Petroleum Division and MKM have been classified as discontinued operations within the consolidated financial statements. MKM continued to be treated as a discontinued operation throughout 2011, while the Maikuben West coal mine and Kazakhmys Petroleum were treated as discontinued until the date these businesses were disposed on 17 May 2011 and 23 December 2011, respectively. Accordingly, MKM represented the only asset held for sale as at 31 December 2011.

$ million	2011	2010
Kazakhmys Power		
Profit before tax excluding impairment losses and (loss)/gain on disposal	8	57
(Loss)/gain on disposal	(20)	14
Taxation charge	(1)	(12)
Impairment loss on remeasurement to fair value	–	(12)
(Loss)/profit for the year	(13)	47
MKM		
Profit before tax excluding impairment losses	18	74
Taxation credit/(charge)	3	(1)
Impairment loss on remeasurement to fair value	(9)	(58)
Profit for the year	12	15
Kazakhmys Petroleum		
Loss before tax excluding impairment losses and loss on disposal	(4)	(2)
Loss on disposal	(24)	–
Taxation credit	1	1
Impairment loss on remeasurement to fair value	(444)	–
Loss for the year	(471)	(1)
(Loss)/profit for the year from discontinued operations	(472)	61

Discontinued operations contributed a post-tax loss of $472 million compared to a post-tax profit of $61 million in the prior period, mainly due to the loss recognised on the sale of the Maikuben West coal mine of $20 million, the impairment loss of $444 million recognised to remeasure Kazakhmys Petroleum to fair value and the subsequent loss on the disposal of Kazakhmys Petroleum of $24 million.

Kazakhmys Power

As discussed above, Kazakhmys Power's results for the year ended 31 December 2011, in respect of discontinued operations, includes the Maikuben West coal mine until its disposal on 17 May 2011, whilst the prior year included 100% of Ekibastuz GRES-1 for the period to 26 February 2010, the date 50% of the business was sold to Samruk-Kazyna, and the Maikuben West coal mine for the full year.

In 2011, Kazakhmys Power's discontinued operations recorded a post-tax loss of $13 million, resulting from the loss on disposal of the Maikuben West coal mine of $20 million, which is treated as a special item, compared to a post-tax profit of $47 million in 2010. The loss on disposal of the Maikuben West coal mine recognised in the year was determined by the excess of the net assets disposed over the proceeds received of $11 million and the $9 million transfer from equity of the unrealised exchange losses which arose on consolidation when converting the net assets, which are denominated in tenge, into US dollars.

The net profit reported in 2010 included the results of the Maikuben West coal mine for the full year and 100% of the results of Ekibastuz GRES-1 until its partial disposal on 26 February 2010, as well as a gain of $14 million arising on the partial disposal of Ekibastuz GRES-1 which was also treated as a special item.

MKM

MKM's underlying operating results were strong, however due to the negative IFRS inventory adjustment which reflects copper price movements between December 2010 and December 2011 of $14 million and weakness in the Euro compared to the US dollar, MKM's profit before tax excluding impairment losses fell by $56 million.

A post-tax impairment charge of $9 million was recognised in 2011, net of a $2 million deferred tax credit, to remeasure MKM's net assets to fair value. In 2010, MKM made a profit of $15 million which included a post-tax impairment loss of $46 million to write down the business to fair value and a positive IFRS inventory adjustment of $43 million.

Kazakhmys Petroleum

The majority of the operating costs incurred by Kazakhmys Petroleum in 2010 and 2011 relate directly to its exploration activities and were therefore capitalised.

Following the adverse results from the drilling programme and the signing of a sales agreement for the disposal of Kazakhmys Petroleum in August 2011, an impairment loss of $444 million was recognised to write the business down to its recoverable amount, being the net expected sales proceeds. The net expected proceeds from the disposal was $100 million plus contingent consideration in the form of potential royalties of up to $476 million, dependent upon future oil revenues. In determining the consideration receivable, no value has been assigned to the contingent consideration given the inherent uncertainties in oil exploration and the adverse drilling results which led to the asset's impairment.

The sale completed on 23 December 2011, and from that date Kazakhmys Petroleum was no longer consolidated and a loss on disposal of $24 million was recognised in the Group's income statement within discontinued operations, also as a special item. The loss arises from the recycling of the foreign currency translation reserves which arose on conversion of the tenge denominated assets and liabilities of Kazakhmys Petroleum into US dollars.

As a result of the impairment charge recognised and the loss realised on disposal of the business, Kazakhmys Petroleum made a loss for the year of $471 million compared to $1 million in the prior year.

Underlying profit

Underlying Profit is considered a more informed measure of the performance of the Group as it removes non-recurring or variable non-trading items from the profit for the period, and their resulting tax and minority interest impacts. It therefore provides a more consistent basis for comparing the underlying trading performance of the Group between 2010 and 2011.

The Group's Underlying Profit for the year from continuing operations increased from $1,384 million to $1,475 million as the Group benefited from higher prices and greater equity accounted earnings from ENRC and Ekibastuz GRES-1.

The reconciliation of Underlying Profit from profit attributable to equity holders of the Company is set out below.

$ million	2011	2010
Net profit attributable to equity holders of the Company from continuing operations	1,402	1,389
Special items:		
Subsidiary businesses		
Additional death and disability benefits obligation charge	146	–
Impairment charge against property, plant and equipment	11	13
Impairment reversal against mining assets	(7)	–
Provisions released against inventories	(19)	(18)
Major social projects	–	130
Associate		
Gain related to acquisition of joint venture	–	(77)
Acquisition related transaction (credit)/costs	(1)	19
Tax effect of non-recurring items		
Subsidiary businesses	(2)	(2)
Associate	–	–
Change in current and deferred tax liabilities:		
Deferred tax asset on additional death and disability benefits obligation	(29)	–
Deferred tax asset on major social projects	(26)	–
Release of deferred withholding tax liability	–	(98)
Change in tax rates in Kazakhstan:		
Subsidiary businesses	–	16
Associate	–	12
Underlying Profit from continuing operations	1,475	1,384

$ million	2011	2010
Net (loss)/profit attributable to equity holders of the Company from discontinued operations	(472)	61
Special items:		
Impairment charge against intangible assets – Kazakhmys Petroleum	444	–
Impairment charge against property, plant and equipment – MKM	1	26
Provisions against inventories – MKM	8	44
Loss on disposal of subsidiaries	44	–
Gain on disposal of share in subsidiary	–	(14)
Release of deferred tax liabilities resulting from impairment charges	(2)	(12)
Underlying Profit from discontinued operations	23	105
Total Underlying Profit	1,498	1,489

Earnings per share

$ million (unless otherwise stated)	2011	2010
Net profit attributable to equity holders of the Company	930	1,450
Total Underlying Profit	1,498	1,489
Weighted average number of shares in issue (million)	534	535
EPS – basic and diluted ($)	1.75	2.71
EPS based on Underlying Profit ($)	2.80	2.79

Under the Group's share buy-back programme 5,559,710 ordinary shares were purchased in 2011 leading to a decrease in the weighted average number of shares in issue for the year. As the share buy-back programme commenced in September 2011, the impact on the weighted average number of shares in issue has not been significant. The shares purchased through the share buy-back programme are being held in treasury and are accounted for as own shares.

Key financial indicators

The definitions of the key financial indicators are shown in the Glossary and these measures, on a total Group basis including continuing and discontinued operations, are set out below:

	2011	2010
Group EBITDA (excluding special items) ($ million)	**2,925**	2,835
EPS based on Underlying Profit ($)	**2.80**	2.79
Free Cash Flow ($ million)	**824**	718
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	**114**	89

Dividends

The policy established at the time of Listing was for the Company to maintain a dividend policy which took into account the profitability of the business and underlying growth in earnings of the Group, as well as its cash flows and growth requirements. The Directors would also ensure that dividend cover is prudently maintained. Interim and final dividends will be paid in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively. Share buy-backs and special dividends have been used in addition to the ordinary dividend to return surplus funds to shareholders.

In the second half of 2011, the Directors announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. In 2011, 5.6 million shares were purchased, with a further 2.1 million purchased in the period from 1 January 2012 to 26 March 2012, at a total cost of $110 million, representing 1.4% of the Company's shares in issue at the commencement of the programme. The Company's authority for this share buy-back programme expires in May 2012, and it is unlikely the announced programme will be completed in full.

The Directors recommend a final dividend for 2011 of 20.0 US cents per share, which together with the interim ordinary dividend of 8.0 US cents per share, gives a total full year ordinary dividend of 28.0 US cents per share (2010: 22.0 US cents per share), based on the earnings for 2011. The total dividend reflects an approximate 12% payout ratio of the Group's full year Underlying Profits as adjusted for the removal of ENRC's and Ekibastuz GRES-1's equity accounted earnings but including dividends received from ENRC during the year, plus an additional 5.0 US cents per share or $26.5 million. The additional 5.0 US cents per share to the 12% payout ratio has been recommended by the Directors taking into account that the announced buy-back programme is unlikely to be completed in full and the Group retains its financial strength with available cash and long dated debt facilities in place.

Subject to the approval of the shareholders at the Annual General Meeting to be held on 11 May 2012, the final dividend shall be paid on 15 May 2012.

Cash flows

A summary of cash flows is shown below:

$ million	2011	2010
Segmental EBITDA before joint venture and associate	**1,221**	1,651
Impairment losses	**462**	84
Share-based payment	**4**	3
Dividends received from associate	**113**	62
Working capital movements[1]	**154**	(49)
Interest paid	**(66)**	(50)
MET paid	**(264)**	(230)
Income tax paid	**(341)**	(365)
Foreign exchange and other movements	**(39)**	(8)
Net cash flows from operating activities	**1,244**	1,098
Sustaining capital expenditure	**(420)**	(380)
Free Cash Flow	**824**	718
Expansionary and new project capital expenditure	**(259)**	(286)
Major social projects	**(36)**	(60)
Interest received	**9**	10
Dividends paid	**(129)**	(80)
Proceeds from disposal of property, plant and equipment	**16**	16
Proceeds from disposal of subsidiaries, net of cash disposed	**111**	–
Cash related to disposal of the subsidiary	**–**	(107)
Purchase of own shares under the Group's employee share-based payment plans	**(5)**	(4)
Purchase of own shares under the Group's share buy-back programme	**(78)**	–
Other movements	**(16)**	(10)
Cash flow movement in net funds/(debt)	**437**	197

[1] Working capital movements exclude any accruals relating to MET.

Summary of the year

Cash flows from operating activities were stronger in 2011 compared to the prior year as the higher commodity prices improved profitability. In addition, the dividends received from ENRC and a positive working capital movement offset the increased sustaining capital expenditure. Despite an increase in tax and interest payments, Free Cash Flow, a key performance indicator of the Group's ability to translate earnings into cash flow, was $824 million compared to $718 million in 2010.

Dividends received

The Group received dividends of $113 million from ENRC in 2011, compared to $62 million in 2010, representing the 2010 final dividend and the 2011 interim dividend of ENRC. As explained above, dividends received have been credited against the carrying value of the investment in ENRC and are not included within the Group's reported earnings.

Working capital

Working capital employed by the Group decreased by $154 million during the year (2010: increase of $49 million). The 2011 working capital movement is primarily due to:

- inventory increases at Kazakhmys Mining of $164 million as there was a build-up of gold bar due to no sales taking place in the second half of the year following the restriction on exports imposed by the National Bank in July 2011, and also an increase in copper finished goods inventories of 6 kt across the year. In addition, reflecting rising input costs, the cost of raw material inventories has also risen since December 2010;
- an increase of $77 million in prepayments and advances, attributable to rising expenditure on the Group's ongoing development projects, including VAT that can only be reclaimed once revenue generating activities commence at these projects;
- lower trade receivables at Kazakhmys Mining of $87 million reflecting the timing of sales and receipts;
- a significant increase of $172 million in Kazakhmys Mining's obligations for death and disability benefits, mainly related to the accrual for payments to current and former employees for work-related injuries following amendments to the legislation in Kazakhstan; and
- a decrease at MKM in the value of inventory of $98 million and trade receivables of $12 million driven by the lower copper prices experienced in the second half of 2011, partially offset by lower accounts payable of $30 million.

In 2010, the increase in working capital of $49 million related to:

- inventory increases at Kazakhmys Mining of $83 million as there was a build-up in work in progress in the fourth quarter of 2010 of material to be processed in 2011;
- a decrease of $66 million in prepayments and advances, resulting from the receipt of goods and services related to the Group's ongoing development projects;
- a positive movement in trade payables and other payables of $191 million at Kazakhmys Mining, principally the accrual of $130 million related to the major social project expenditure;
- an increase in the level of trade receivables within Kazakhmys Mining of $118 million due to larger revenues in the latter part of 2010 and the timing of receipts; and
- a significant increase at MKM in the value of inventory of $70 million and trade receivables of $25 million driven by the higher copper prices experienced in the second half of 2010, when compared to those in 2009.

Despite these working capital movements, working capital levels continue to be tightly controlled and managed across all of the Group's businesses.

Interest cash flows

Interest paid during the year was $66 million compared to $50 million in the prior year, as both bi-annual interest payments on the CDB/Samruk-Kazyna financing facilties were made in 2011 compared to one such payment in 2010 when the facilities were first drawn. The higher average effective interest rate and bi-annual payments under the CDB/Samruk-Kazyna financing facilities were partially offset by lower interest charges under the PXF due to capital repayments of $525 million.

Interest received is at similar levels to 2011 at $9 million as larger average cash balances were offset by lower deposit interest rates during 2011.

Income taxes and mineral extraction tax

Total tax payments for the year were $605 million, compared to $595 million in 2010, including $264 million related to MET. The higher tax payments in 2011 arise from the larger MET payments made due to stronger commodity prices and increased advance payments made for corporate income tax.

The Group was in a net tax receivable position of $64 million, compared to $12 million at the end of 2010. Income tax payments for the year of $341 million exceeded the total current income tax charge of $291 million due to advance payments remitted during 2011 that had been agreed earlier in the year with the tax authorities prior to the decline in commodity prices in the second half of the year. Of the total MET charge of $280 million, $66 million remains unpaid at 31 December 2011.

Free Cash Flow

The Group's Free Cash Flow of $824 million improved from $718 million in the prior year as the higher earnings generated by the Group and dividends received from ENRC together with a favourable working capital movement, were only partially offset by higher interest and tax payments and sustaining capital expenditure.

Capital expenditure

Total capital expenditure in 2011, excluding expenditure on major social projects, was $13 million greater than the $666 million spent in 2010, with expenditure focused on sustaining the current business operations increasing to $420 million from $380 million. Expansionary and new project capital expenditure was $27 million lower than 2010 at $259 million.

Sustaining capital expenditure within Kazakhmys Mining included expenditure on the smelters, concentrators, auxiliary workshops and the transport infrastructure to maintain output levels, and the purchase of new mining equipment to improve availability. Expenditure was also incurred on improving the health and safety and operating conditions and practices at the mines, including roof bolters, shotcret equipment and ventilation units to improve air quality. Equipment was ordered to enable the re-opening of the Konyrat mine in 2012 which was suspended in 2008 due to unfavourable commodity prices at that time.

The major items of expansionary capital expenditure during the year include the feasibility study and engineering work on the sulphide ore deposit at Bozshakol, the continued on-site processing and infrastructure construction at the Bozymchak mine, the pre-feasibility work at the Aktogay mine and the ongoing development of the infrastructure at the West Nurkazgan mine.

In 2010, the Group spent $60 million as part of the Group's social development programme on major social projects in Kazakhstan. In 2011, an additional $36 million was paid for construction work.

Investing cash flows

During 2011, proceeds were received from the disposal of non-core businesses, Kazakhmys Petroleum and the Maikuben West coal mine of $119 million and $3 million respectively. The net proceeds received were $111 million as the cash disposed within these businesses amounted to $11 million.

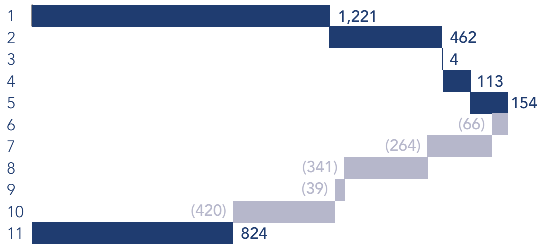
In the prior year, a $107 million outflow resulted from the deconsolidation of Ekibastuz GRES-1's net funds position following the 50% disposal of Ekibastuz GRES-1 in February 2010.

Returns to shareholders

The Group paid ordinary dividends of $129 million in 2011 representing the final 2010 dividend of $86 million and the 2011 interim dividend of $43 million. In 2010, the Group paid ordinary dividends of $80 million, being the final 2009 dividend of $48 million and the 2010 interim dividend of $32 million.

Kazakhmys commenced a buy-back programme in September 2011 which by 31 December 2011 had purchased 1.1% of the Company's issued share capital at a cost of $78 million.

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



1 Segmental EBITDA
2 Impairment losses
3 Share-based payments
4 Dividends received from associate
5 Working capital movements
6 Interest paid
7 MET paid
8 Income tax paid
9 Foreign exchange and other movements
10 Sustaining capital expenditure
11 Free Cash Flow

Balance sheet

Summary of movements

As at 31 December 2011, the equity attributable to owners of the Company was $8,825 million, compared to $8,206 million as at 31 December 2010, an increase of $619 million, as the Group's retained earnings grew due to the profits generated during the year. The slight depreciation of the tenge over the year to 31 December 2011 has led to a non-cash loss of $21 million being recognised in the foreign currency translation reserve within equity. The non-cash loss arises due to the retranslation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

The Group's capital employed position at 31 December 2011 is shown below:

$ million	2011	2010
Equity attributable to owners of the Company	8,825	8,206
Non-controlling interests	7	13
Borrowings	1,893	1,819
Capital employed	10,725	10,038

ENRC

Included on the Group's consolidated balance sheet at 31 December 2011, as an investment in associate, is the Group's 26% investment in ENRC, with a carrying value of $4,600 million (2010: $4,356 million). The Group's share of equity accounted earnings of $466 million (2010: $522 million) and the share of losses of the associate recognised within equity of $109 million (2010: gain of $27 million) for the year have been offset by $113 million (2010: $62 million) of dividends received from ENRC in 2011.

At 31 December 2011, the ENRC shareholding had a market value of $3,289 million (2010: $5,431 million) based on the public price quotation on the London Stock Exchange. The market value of the ENRC shareholding at the year end was determined to be significantly below the carrying value on the Group's balance sheet as envisaged by IAS 39 and consequently an impairment review of the investment was undertaken at 31 December 2011. No impairment has been recognised as the recoverable value of the ENRC shareholding, as calculated on a value-in-use basis, exceeded the carrying value at 31 December 2011.

Ekibastuz GRES-1 (Kazakhmys Power)

The Group's 50% interest is included on the consolidated balance sheet as an investment in joint venture at a carrying value of $838 million (2010: $742 million). The carrying value of the investment represents the fair value of 50% of Ekibastuz GRES-1 at acquisition, being the deemed cost at 26 February 2010 of $703 million, and the Group's share of the subsequent post-tax profits and equity movements. The Group's share of equity accounted earnings of $100 million (2010: $38 million) for the year has been offset by the share of Ekibastuz GRES-1's losses recognised within equity of $4 million (2010: gains of $1 million).

Net funds/(debt)

Net funds/(debt) consists of cash and cash equivalents, current investments and borrowings. A summary of the net funds/(debt) position of continuing operations is shown below:

$ million	2011	2010
Cash and cash equivalents	1,102	1,113
Current investments	810	356
Borrowings	(1,893)	(1,819)
Net funds/(debt)[1]	19	(350)

[1] Excludes MKM and Kazakhmys Power.

The Group's net funds position (net of capitalised arrangement fees of $23 million and excluding discontinued operations) was $19 million compared with a net debt position of $350 million at 31 December 2010. The improved cash inflows in 2011, the receipt of $100 million from the sale of Kazakhmys Petroleum and the increased dividend from ENRC converted the Group's net debt position into a net funds position as the cash flows generated during the year were more than sufficient to support the capital expenditure programme, fulfil the Group's tax payments during the year and purchase $78 million of the Company's shares under the share buy-back programme.

Gross debt of continuing operations of $1,893 million is $74 million higher than the $1,819 million at 31 December 2010, as the draw down of an additional $600 million during the year ($592 million net of fees) under the $2.7 billion CDB/Samruk-Kazyna financing facilities was offset by the continued monthly repayment of $44 million under the PXF. These monthly repayments have reduced the amount outstanding under the PXF by $525 million during the year to $612 million. Of the funds drawn under the CDB/Samruk-Kazyna financing facilities, $1,000 million has been allocated to the Bozshakol project and $300 million for the development of the Bozymchak project, the gold/copper deposit in Kyrgyzstan and other mid-sized projects.

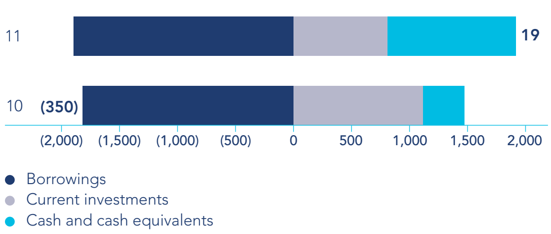
The Group has available several revolving credit facilities for general corporate purposes and to provide standby liquidity. Of the corporate credit facilities of $300 million entered into by the Group, facilities amounting to $250 million have maturity dates in March 2013 and a facility amounting to $50 million has a maturity date in September 2013. At 31 December 2011 all such facilities were undrawn and a further $1.4 billion remains available to be drawn down under the CDB/Samruk-Kazyna financing facilities by December 2012.

Cash and short-term deposits of the Group's continuing businesses as at 31 December 2011 were $1,912 million compared to $1,469 million at 31 December 2010. The increase is attributed to higher cash inflows from operating activities, the receipt of $100 million for the sale of Kazakhmys Petroleum and the proceeds from borrowings drawn under the CDB/Samruk-Kazyna financing facilities, partially offset by continued monthly repayments under the PXF. Of the cash and short-term deposits as at 31 December 2011, approximately $900 million (2010: $500 million) is reserved under the CDB/Samruk-Kazyna financing facilities for the development of the Group's projects under the terms of the individual facility agreements, with the balance being available to meet working capital needs and general corporate purposes.

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 in the UK are held primarily with major European and US financial institutions with minimum ratings of Standard & Poors 'A-' and Moodys 'A3' and 'AAA' rated liquidity funds. At 31 December 2011, $1,743 million (2010: $1,292 million) of cash and short-term deposits were held in the UK, with $169 million (2010: $177 million) being held in Kazakhstan.

On 16 December 2011, the Group signed a $1.5 billion loan facility with the CDB, to be used for the development of the major copper project at Aktogay. The loan facility consists of two separate agreements with similar terms and conditions. The first agreement is for up to $1.34 billion and the second agreement for up to RMB1.0 billion ($157 million equivalent at the year end RMB/$ exchange rate). The funds will be available to draw down over a three year period, following the satisfactory completion of the feasibility study, maturing 15 years from the date of first draw down.

Analysis of net debt ($ million)



Discontinued operations

As explained in the 'Basis of preparation', following the disposal of the Maikuben West coal mine on 17 May 2011, only MKM has been classified as being held for sale as at 31 December 2011. As a result of this classification, MKM's assets and liabilities are separately shown within the consolidated balance sheet as single line items within current assets and current liabilities. The principal components of MKM's current assets include inventory and trade receivables balances of $95 million and $114 million, respectively. Current liabilities include MKM's borrowings of $121 million. As with the current assets, the liabilities of the Maikuben West coal mine were all derecognised when the disposal completed in May 2011. The net debt of MKM at 31 December 2011 was $112 million (2010: $185 million).

On 21 July 2011, the MKM trade finance facility was refinanced for four years with a final maturity in July 2015. The facility was also increased from €170 million to €220 million. Interest is payable on the drawn balance at a rate of EURIBOR +2.25%. The loan is secured over the inventories and receivables of MKM. At 31 December 2011, borrowings under this facility were $121 million, down from $191 million at 31 December 2010, as a result of lower working capital requirements due to falling copper prices towards the end of the year and a weaker Euro against the US dollar.

Taxation

Tax strategy and risk management

The Group is subject to taxation in the UK, Kazakhstan and the various foreign countries in which it operates. Tax legislation of the jurisdictions in which the Group operates differs and is subject to interpretation by management and the government authorities, and as such, creates a risk of non-compliance with specific tax requirements. Whilst the Directors believe that the Group is in substantial compliance with tax legislation and contractual terms entered into that relate to tax, the absence of established case history, the complexity and judgemental nature of tax legislation in certain jurisdictions result in additional risk for the Group. Specific areas of interpretation include the applicability of stabilisation under the Group's operating licences, including subsoil use contracts, the deductibility of expenditure under the terms of the Group's subsoil use contracts and the structuring of cross border transactions, particularly in respect of the application of transfer pricing policies.

The Group's core objectives in managing and controlling its tax affairs and related tax risks are as follows:

- ensuring compliance with applicable rules and regulations in the jurisdictions in which the Group operates; and
- structuring the business in the most efficient and transparent manner with the emphasis being on the maximisation of shareholder value.

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risks, and has therefore adopted a tax strategy, which has been approved by the Board, that is aimed at achieving the following objectives, thereby aligning it with the Group's long-term strategy:

- the Group's tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Chief Financial Officer who reports them to the Audit Committee on a regular basis;
- significant tax risks, implications arising from those risks and potential mitigating actions are considered by the Board when strategic decisions are being taken;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the half year and annual effective tax rate and the composition of the tax charge are reviewed by the Audit Committee as part of their remit in reviewing the half-yearly and annual reports;
- the Group builds an equitable relationship with the tax authorities in the jurisdictions in which it operates;
- the Group takes appropriate tax advice from reputable professional firms;
- where disputes arise with government authorities with regard to the interpretation and application of tax legislation, the Group is committed to addressing the matter promptly and resolving the matter with the relevant tax authority in an open and constructive manner;
- the Group employs professional tax managers within the corporate head office and the operating businesses, and provides ongoing technical training to them.

Total tax contribution

During 2011, the Group (including 100% of the joint venture, Ekibastuz GRES-1 LLP) paid $932 million (2010: $879 million) in taxes across the countries in which it has a presence. Company taxes, such as corporate income taxes, MET, environmental taxes and employer taxes, comprised $820 million (2010: $766 million) of this total. In addition, the Group indirectly contributed $110 million (2010: $113 million) in employee taxes and withholding taxes primarily on interest payments and dividends, which the Group collected on behalf of government authorities and paid over to them.

Taxes paid directly to governments by category and region

$ million	Central Asia [1]	UK	Germany	2011 total	2010 total
Taxes paid					
Corporate income taxes	377	20	1	**398**	390
Mineral extraction tax	264	–	–	**264**	230
Payroll taxes (employer's obligations)	47	2	10	**59**	53
Customs and stamp duties	26	–	–	**26**	21
Taxes on properties	22	–	–	**22**	22
Environmental payments	47	–	–	**47**	44
Miscellaneous taxes	5	–	1	**6**	6
	788	22	12	**822**	766
Taxes collected and remitted					
Withholding taxes on dividends, interest, services	6	–	–	**6**	24
Payroll taxes (employee's obligations)	81	5	18	**104**	89
	87	5	18	**110**	113
Total	875	27	30	**932**	879

[1] Includes Kazakhstan and Kyrgyzstan and includes 100% of the Ekibastuz GRES-1 LLP joint venture for the year.

Financial risk management

Background

The Board is committed to maintaining a high standard of financial risk management within the Group. The Group's policies with regard to financial risk management are clearly defined and consistently applied.

The Group's principal business is the identification, extraction and processing of mineral resources. The Group does not engage in speculative trading activities and sales contracts are generally negotiated with trading companies or end users. The pricing basis applied in all sales contracts is referenced to prevailing market benchmarks such as the 'official' settlement prices quoted by the LME. In general, the policy of the Group is not to hedge the underlying price exposure to its principal commodities, although in periods of high uncertainty or volatility the Group may consider some hedging of revenue and cost items in order to reduce volatility or risk on the Group's cash flows. The Board may in certain circumstances authorise commodity hedging in order to guarantee the longer-term viability of certain marginal cost operations or to satisfy the specific covenant requirements of independently financed development projects.

Additionally, in limited circumstances where it is not possible to structure intra-group commodity transactions on back-to-back pricing terms, commodity hedges may be used to reduce the Group's exposure to short-term price fluctuations.

The Group has an investment of 26% in ENRC, a company which is also exposed to similar financial risks as shown below. The impact of these risks on ENRC will impact on its dividend stream and its own market capitalisation.

Responsibility for financial risk management is undertaken primarily by the Group's centralised Treasury function, operating under oversight of a Treasury Committee which is chaired by the Chief Financial Officer.

The significant risks identified by Kazakhmys that could materially affect the Group's financial condition, performance, strategy and prospects are set out in the Risk Factors section on pages 34 to 37. Details of the Group's system of internal control is set out in the Corporate Governance Report on pages 90 to 109.

Financial risks

The principal financial risks arising from the Group's activities are those relating to commodity price risk, foreign exchange risk, interest rate risk, counterparty credit risk, liquidity risk and capital structure. The Group does not engage in any transactions of a speculative nature.

Commodity prices

The Group's mining revenues and earnings are directly impacted by fluctuations in the prices of the commodities it produces. The Group's principal commodities (copper, zinc, gold and silver) are priced via reference to global metal exchanges, upon which pricing is derived from global demand and supply and influenced by macroeconomic considerations and financial investment cash flows. The pricing of the Group's principal commodities may also include a pre-determined margin or discount depending on the terms of sales contracts. Commodity prices, particularly those derived from global metal exchanges, may fluctuate significantly and may have a material impact on the Group's financial results.

The Group manages potential downside commodity price risk by focusing on maintaining its low cost producer status and also through the wider strategy of revenue diversification. Management closely monitors the impact of fluctuations in commodity prices on the business and uses conservative pricing assumptions and sensitivity analysis for its forecasting and investment appraisals.

The Power business positions the Group as a significant net generator in the Kazakhstan power market. The Kazakh power market has a predominance of large industrial electricity users focused on the natural resource sector, and consequently, electricity demand tends to broadly follow the commodity cycle. Power tariffs are derived through a complex interaction of regional demand and supply imbalances, tempered by specific regulatory interventions to minimise the inflationary pressure on domestic electricity users. The Group sells its power to a mix of wholesale and industrial customers through directly negotiated bilateral contracts. In April 2009, to encourage investment in the power sector, the Government introduced a framework to raise tariff ceilings for domestic electricity sales for the years 2009 to 2015. The ceiling prices will be set by the Ministry of Industry and New Technologies on an annual basis, and are subject to the generator meeting capital investment commitments.

MKM is exposed to fluctuations in the price of the metal content of its products to the extent that metal purchases price at different dates from finished goods sales. MKM uses the natural hedge provided by the back-to-back pricing of purchases and sales on its ongoing operations to manage this pricing exposure. Where there are temporary mismatches in volumes, commodity futures are used on a limited basis to ensure MKM's economic position is not materially impacted by metal price movements.

Foreign currency risk

The presentational currency of the Group is the US dollar, consistent with the pricing currency of the majority of the Group's revenue. Where possible, the Group, excluding MKM, attempts to conduct its business, maintains its monetary assets and seeks to source corporate debt capital in US dollars so as to minimise its exposure to other currencies. The Group retains surplus cash balances in US dollars for capital expenditure, acquisitions and returns to shareholders. Working capital balances are maintained in a mix of US dollars and local currencies depending on short-term requirements of the business. Whilst there is a strong correlation between many mining input costs and the US dollar, a significant portion of the mining business' operating costs are denominated in local currencies, particularly the Kazakhstan tenge. Rates of exchange for these currencies relative to the US dollar could fluctuate significantly and may materially impact the profitability of the underlying operations and the net assets of the Group.

Due to its geographic location, MKM conducts its business in Euros and seeks to price its revenues in that currency, being also the currency in which the majority of its operational costs are denominated.

The Group is exposed on its net investment in MKM to the extent that movements in the Euro may make that investment more or less valuable. The Group seeks to mitigate that risk by raising MKM's debt financing in Euros, thus matching the negative exposure of the debt servicing against the positive exposure of the revenue.

From time to time, acquisitions and capital investments may expose the Group to movements in other currencies and the Group will consider hedging such exposures on a case by case basis.

Interest rate risk

The Group's interest rate management policy is generally to borrow and invest at floating interest rates. In some circumstances, an element of fixed rate funding may be considered appropriate. Hedging via interest rate swaps or similar instruments may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical averages.

Counterparty credit risk

The Group is exposed to counterparty credit risk on balances and commitments due from third parties. The Group has adopted policies and procedures to control and monitor the distribution of these exposures to minimise the risk of loss in the event of non-performance by counterparties.

The Group's mining business protects its exposure to customer credit risk by maintaining strong business relationships with customers and through a combination of documentary credit instruments and requiring payment prior to delivery. Within Kazakhmys Mining, cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are made under letters of credit which are obtained prior to delivery and transfer of title of the goods. MKM manages its customer credit risk with debtor insurance.

Kazakhmys Power receives cash upfront or has short payment terms depending on the nature of the customer.

The Group's cash management policies emphasise security and liquidity of funds ahead of investment return. The Group's surplus funds held outside Kazakhstan are predominantly invested in US dollars. Investments of cash and deposits are made only with approved counterparties of high credit worthiness and within credit limits assigned to each counterparty. 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, with the funds in the UK being held primarily with major European and US financial institutions. These limits are reviewed on a regular basis to take account of developments in financial markets and updated accordingly. The limits are set to minimise the concentration of risks and therefore mitigate any financial loss through potential counterparty failure.

Exposures are measured against maximum credit limits assigned to each approved counterparty to ensure credit risk is effectively managed. The Group must maintain a level of cash and deposits in Kazakhstan with local branches of international financial institutions and well established local Kazakhstan banks. The Group limits its local cash and deposits to working capital requirements in Kazakhstan.

Liquidity and capital management

The Group's objectives with regard to managing its liquidity and capital structure are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to lower the overall cost of capital.

The Group does not have a target debt/equity ratio, but has determined a maximum debt capacity based on a ratio of long-term 'normalised' EBITDA which the Board believes establishes a sustainable level of gearing through the commodity cycle. This ratio is reviewed in conjunction with market conditions and prevailing commodity prices in order to ensure an efficient capital structure that is balanced against the risks of carrying excessive leverage. The Group manages net debt to ensure that it does not exceed two times 'normalised' EBITDA through the commodity cycle, where 'normalised' EBITDA excludes special items and equity accounted earnings from ENRC and Ekibastuz GRES-1 (from 27 February 2010). Included within the debt facilities are financial covenants related to maximum borrowing levels (determined by reference to net debt to EBITDA and debt to equity ratios) and minimum tangible net worth for which compliance certificates are produced.

The Group maintains back-up liquidity for debt maturing within 12 months by way of committed revolving credit facilities totalling $300 million and by maintaining cash on the balance sheet.

Summary of critical accounting policies

Summary

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for the Directors to exercise judgement and to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from the estimates and assumptions used. Set out in note 2(i) on page 135 are the key judgements which the Directors believe are likely to have the most significant effect on the amounts recognised in the financial statements. The following summary provides more information about the critical accounting policies and their application (as opposed to the specific judgements set out in note 2(i)) that could have a significant impact on the results of the Group and should be read in conjunction with the notes to the financial statements.

Impairment of assets

The Group reviews the carrying value of its non-current investments to determine whether there is any indication that those assets are impaired. The assessment of whether an indicator of impairment has arisen can require considerable judgement, taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. In making these assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of those assets, or CGUs, is measured at the higher of their fair value less costs to sell and value in use and requires significant estimates and assumptions to be made about future cash flows. If the carrying amount of the cash generating unit or asset exceeds its recoverable amount, then an impairment provision is recognised to write down the carrying value of the cash generating unit or the asset to its recoverable amount.

Management applies judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. Notes 6 and 9 commencing on pages 146 and 160, respectively, show the impairment charges recognised in the year.

At 31 December 2011, the carrying value of the Group's equity investment in ENRC exceeded the market value of the ENRC investment by an amount that the Directors deemed as significant as envisaged by IAS 39 'Financial instruments: recognition and measurement'. As a result, an impairment review was performed in accordance with IAS 36 'Impairment of assets', which concluded that no impairment was necessary as the recoverable amount of the ENRC investment, being its value-in-use, exceeded the carrying value. Refer to note 2(i) (ii) on page 137 for details.

Equity accounting

At 31 December 2011, the Group owned 26% of ENRC PLC, a Kazakhstan-based mining company listed on the London Stock Exchange. The investment has been recorded as an associate and accounted for under the equity method as the Group has the ability to exercise significant influence over ENRC as prescribed by IAS 28 'Investments in Associates'.

The Group's interest in the net assets of ENRC is included in 'Investments in associates' in the consolidated balance sheet and its interest in the results of ENRC, net of tax, is included in the consolidated income statement in 'Share of profits from associate' below operating profit. The Directors have applied judgement in determining that the Group has the ability to exercise significant influence over ENRC.

Useful economic lives and ore reserve estimates

The Group's mining assets, classified within tangible assets, are depreciated using the unit of production method over the estimated economically recoverable reserves to which they relate, or over a shorter period prior to the depletion of the reserves having regard to the asset's physical life limitation. The estimation process for recoverable reserves is complex and involves significant judgement, and assumptions relating to the life of the mine and ore reserves may change when new information becomes available. These assumptions include a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, exchange rates, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions, which may vary from period to period, are accounted for prospectively as they could affect future depreciation rates and carrying values. A review of the Group's reserves and resources is undertaken on an annual basis by an independent competent person in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC code). An audit of the Group's reserves and resources by an independent competent person was commissioned in 2010. The scope of the audit can be found in the 2010 Annual Report and Accounts.

The majority of other items of property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management reviews the appropriateness of useful economic lives at least annually and any changes could affect prospective depreciation rates and asset carrying values.

Exploration and evaluation expenditure

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires the Directors to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under this accounting policy, a judgement is made that recovery of the expenditure is unlikely for reasons such as failure to renew the licences or permits or indications that commercial recovery of the related reserves would not be achieved, the relevant capitalised amount will be written off to the income statement.

As at 31 December 2010, the most significant asset where the Directors applied their judgement in the area of exploration and evaluation expenditure related to Kazakhmys Petroleum. Note 2(i) on page 136 sets out the considerations which the Directors applied in exercising their judgement on this asset which had a carrying value of $564 million as at 31 December 2010. The Kazakhmys Petroleum business was subsequently disposed on 23 December 2011, such that no further judgements were required to be applied on this asset by the Directors at 31 December 2011.

Contingencies

Material contingencies facing the Group are set out in note 37 of the financial statements commencing on page 187. A contingent liability arises where:

- a past event has taken place for which the outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain events outside of the control of the Group; or
- a present obligation exists but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A provision is made when a loss to the Group is likely to crystallise. The assessment of the existence of a contingency and its likely outcome, particularly if it is considered that a provision might be necessary, involves significant judgement taking all relevant factors into account. As laws and regulations in Kazakhstan continue to evolve, for example, in the areas of taxation, environment and subsoil rights, uncertainties regarding contingencies are greater than typically found in countries with more developed legal and regulatory frameworks.

During 2011, the Directors have been required to exercise their judgement over the applicability of stabilised environmental rates to the Group's operations in Kazakhstan, and the interpretation of the ruling of the Supreme Court of Kazakhstan and tax audit assessments for the periods 2006 to 2008, inclusive, in respect of excess profits tax and other taxes incurred by Kazakhmys Mining. Notes 32 and 37 on pages 179 and 187, respectively, set out the considerations which the Directors have applied in reaching their judgement as to the level of provisioning required for environmental payments, excess profits tax and other taxes relating to past and present periods.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Non-current assets (or disposal groups) held for sale are carried at the lower of the carrying amount prior to being classified as held for sale, and the fair value less costs to sell. A non-current asset is not depreciated while classified as held for sale. A non-current asset held for sale is presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale are presented separately as one line in the assets and liabilities sections on the face of the balance sheet.

An asset or business is considered to be a discontinued operation if it has been sold or is classified as held for sale and is part of a single coordinated plan to dispose of either a separate major line of business or is a subsidiary acquired exclusively with a view to sale. Once an operation has been identified as discontinued, its net profit is presented separately from continuing operations. Comparative information is reclassified so that net profit of prior periods are also presented separately.

In 2010, MKM and the Maikuben West coal mine were considered by the Directors as non-current assets held for sale and as discontinued operations based on criteria prescribed by the relevant accounting standard. Following the disposal of the Maikuben West coal mine on 17 May 2011 and Kazakhmys Petroleum on 23 December 2011, only the disposal of MKM had not taken place by 31 December 2011. The Directors have had to exercise their judgement in respect of the continued treatment of MKM as a non-current asset held for sale and as a discontinued operation. The Directors' judgements are detailed in note 2(i) and note 6 on pages 135 and 146, respectively.

Corporate Responsibility

Investing for responsible growth

We are committed to being a responsible employer who carefully manages the risks that mining, smelting and power generation present to people and the environment. The delivery of our strategy will always include the consideration of and investment in our workforce and the communities around us.

A message from Philip Aiken

Embedding a culture of responsibility depends on visible commitment from the top. Our Board and GHSE Committee take the Company's responsibilities very seriously and seek to lead by example. That's why every GHSE Committee meeting takes place in Kazakhstan at one of our operational sites, and why the GHSE Committee is directly involved in investigating every serious or fatal accident.

This section of our Annual Report and Accounts describes the progress we have made this year. However, we recognise that there is much more to do to fulfil our responsibilities.

We also know that improving our performance will bring multiple benefits – safe, productive workplaces that attract the best employees; increased efficiency and reduced costs; and greater trust and cooperation among our employees, regulators, local communities and other stakeholders.

The GHSE Committee members remain fully and personally committed to playing an active role in improving our performance and realising the benefits for all concerned.

Introduction

Our aim is to ensure our business growth enhances social and economic development in the communities where we operate, and that we remain a major contributor to the economy of Kazakhstan through our taxes, employee remuneration and spending.

In doing so, we remain committed to being a responsible employer which carefully manages the risks that mining, smelting and power generation present to people and the environment. We continue to focus heavily on improving our health and safety performance, as a safe workplace is the minimum employees and contractors should expect.

Building a reputation for responsibility will help increase access to the capital we need to invest for growth and lower our operational costs. It will also help us build positive relationships with regulators and local communities, and attract and retain the best employees.

Managing our business responsibly

Kazakhmys aims to run safe and efficient operations that meet regulatory requirements and international standards. Our operations manage risks to people and the environment locally, with Group oversight. The material health, safety and environmental (HSE) risks included in our Group risk management process are set out on page 34.

HSE Organisation chart

Organisation and responsibilities

We continue to integrate HSE responsibilities into production operations and to make clear these are part of every job. Every employee must follow our HSE policies and procedures at all times. As shown in the diagram, our organisational structure provides clear accountability for HSE management. There is more information about the role and responsibilities of the GHSE Committee on page 109.

In 2011, we recruited a new Group Health and Safety Manager to support our Chief Operating Officer (COO) in implementing our health and safety plan and improving our performance. The COO continues to work closely with the Group Human Resources Director to strengthen our HSE culture and training.

In 2011, we restructured our environmental department to place a dedicated specialist at each site and a group of environmental managers within each of our three mining regions. Our Group Environmental Department will retain a smaller central team to provide guidance and support. The central team will be combined with our Group Health and Safety Department to create an integrated HSE resource.

Policies and management systems

All divisions have HSE policies which describe their commitments and responsibilities, based on the guiding principles set up by Group executive management. All sites have health, safety and environmental management systems in place.

Throughout 2011, we worked on implementing the health and safety management plan introduced in February, with a focus on hazard recognition and prevention. The plan includes actions against 21 safety priorities, including ventilation and isolation of electrical equipment.

We also began to implement our environmental action plan, work which will extend into 2012. The plan takes into consideration the recommendations listed in our 2010 Annual Report and Accounts from an audit conducted by Golder Associates. Actions in 2011 included the introduction of new environmental standards, installation of fly-ash separators at captive power plants, reclamation of waste disposal sites, construction of tailings dams, design and construction of water treatment facilities, and repairs to pipelines and pumping equipment. Other measures within the plan require a site redesign at significant investment, and so will be implemented in the longer term. Examples include developing and implementing a group-wide energy efficiency and carbon reduction programme by 2015, and constructing treatment facilities for non-process wastewater from bathrooms and kitchens at our Karagaily concentrator, Nurkazgan Complex, and Shatyrkul and Yubileyno-Snegirikhinsky mines by the end of 2013.

Measuring performance

We continue to improve our data collection systems for corporate responsibility. The data in this Corporate Responsibility section was collected using a new system introduced in 2011 to ensure quality and consistency of reporting across our Mining and Power Divisions. As a result we have restated some 2010 data with more robust figures. Where data has been restated this is clearly noted and explained.

Unless otherwise stated, data for 2011 in this section covers our Mining Division (which includes the previous Kazakhmys Copper and Gold businesses along with Kazakhmys Exploration and Kazakhmys Projects) and Power Division (Ekibastuz GRES-1 power plant and captive power plants supplying our mining operations). This represents 97% of our total workforce and almost all of our Segmental EBITDA. In 2010, the Kazakhmys Gold business was not considered sufficiently material and was excluded from the Corporate Responsibility report. However, following the internal restructuring of the Group in 2011, this business is now combined in the Kazakhmys Mining Division with the previous Kazakhmys Copper business and is therefore included in the corporate responsibility data for the first time.

Notes on previous years' data:

- Mining Division data for previous years does not include the Gold business, Kazakhmys Exploration or Kazakhmys Projects.
- Data from the captive power plants were included as part of the former Copper Division in previous years, and are reported as part of the Power Division from 2011.
- We have not restated 2010 corporate responsibility data to reflect the restructuring of the business. Unless otherwise stated, corporate responsibility data for 2010 reflects our previous organisational structure.

Stakeholder engagement

Our stakeholders are the many people and groups that influence or are affected by our actions. Building close relationships with our stakeholders helps us respond to their needs in ways that support our business goals. There are examples of our engagement with each group and the related outcomes throughout the Corporate Responsibility section of the Annual Report and Accounts.

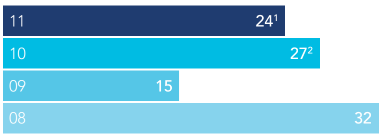
Corporate Responsibility Key Performance Indicators

In 2010 we selected six KPIs to monitor and drive improvements in our corporate responsibility performance. Our KPIs highlight our most significant areas of social and environmental impact and we are committed to reporting our progress. We continue to develop our systems for data collection and improve the quality of our reporting.

Safety

Fatalities (direct employees and contractors)

24[1]



Relevance
Fatalities is the key measurement in health and safety. Reduction of fatalities is our main corporate responsibility target.

How we measure
Number of work related fatalities, for our employees at our managed operations.

2011 Performance
There were 19 employee and five contractor fatalities in 2011. While this is eight fewer fatalities among direct employees than in 2010, even one fatality is too many and improving safety continues to be our absolute priority.

[1] 2011 data includes contractor fatalities. Data for previous years are for direct employees only.
[2] Restated to include one fatality caused by a road accident off site. From 2011, fatalities caused by road accidents off Kazakhmys sites are included in the total employee fatality number.

Lost-time injury frequency rate (direct employees)

1.55

Relevance
This is a standard measure used for non-fatal injuries across the mining industry. Measuring incident frequency should help assess the effectiveness of our training and prevention programmes.

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

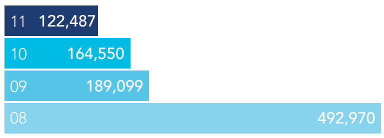
2011 Performance
Our lost time injury frequency rate increased to 1.55 in 2011 from 1.47[1] in 2010. This is an expected increase that reflects a rise in incident reporting as part of our drive to improve our safety culture and performance.

[1] The 2010 figure has been restated to include Kazakhmys Gold, Kazakhmys Exploration and Kazakhmys Projects. It also includes off-site road accidents, which were previously excluded.

Environment

SO_2 emissions (tonnes)

122,487



Relevance
Our copper deposits are mainly sulphurous and so they produce SO_2 in the production process. SO_2 is harmful to the environment.

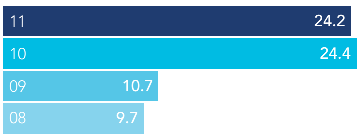
How we measure
Tonnes of SO_2 emitted from our copper production plants.

2011 Performance
SO_2 emissions for our Mining Division totalled 122,487 tonnes in 2011. However, this is not an actual reduction as the restructuring of our business means that captive power plants are no longer reported within the Mining Division. Comparing like with like, our Mining Division and captive power plants together emitted 172,390 tonnes of SO_2 this year, an increase of 4.8%.

Employees and social

CO$_2$ emissions
(million tonnes)

24.2



Relevance
CO$_2$ is the most prevalent greenhouse gas, and emissions of CO$_2$ are subject to changing environmental legislation.

How we measure
Tonnes of CO$_2$ emitted from our operations into the air. Currently this includes emissions from Ekibastuz GRES-1 power station, where output is sold to third parties, and the emissions from our captive power stations which also provide heat and power to neighbouring communities. The emissions cannot, therefore, be solely linked to copper output.

2011 Performance
CO$_2$ emissions slightly decreased in 2011 to 24.2 million tonnes, reflecting the commissioning of the first electrostatic precipitator at the Ekibastuz power plant in 2010. The decrease is not greater because the precipitator's impact was offset by the use of less efficient coal in our captive power plants.

Safety training
(average hours per employee)

41.4

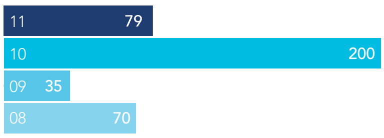
Relevance
We believe that key to improving our safety record is to use education and training programmes to create a cultural change in our management and workforce.

How we measure
The average number of hours received by those employees given formal health and safety training.

2011 Performance
We trained 25,929 employees in health and safety in 2011. Each received an average of 41.4 hours of training compared with 38.5 hours in 2010. We continue to improve safety training as a key step in building a safety culture. Our bespoke training course in health and safety management, developed by DuPont, will continue in 2012.

Total community investment
($ million)

79



Relevance
Kazakhmys has strong links to the communities around its operations, many of which were built to serve the mines. This also helps to create a better working and living environment for employees.

How we measure
Millions of dollars allocated on social projects, including education, healthcare, infrastructure, charity and spend on employees. Some of our investment is required under licence, and some is voluntary. This figure is based on items shown in the income statement only.

2011 Performance
Our spending reduced in 2011 as our contribution towards the national library and education centre in Astana was recognised in full in 2010. Our community investment in 2011 totalled $79 million and funded significant projects in education, infrastructure and sports.

Health and Safety

A safe operation is an efficient operation. We continue to work hard to build a safety culture throughout our business, to improve operational and safety performance for the long term. This is not easy in an industry that, in addition to common workplace hazards, involves heavy equipment, explosives and hazardous chemicals – often underground and at extreme temperatures. However, we firmly believe that our long-term goal of zero fatalities is achievable.

We maintain a position of zero tolerance to non-compliance with our safety policies and standards and continue to promote our 10 key safety rules. In addition, in 2011 we established 'Five Steps Towards Safety'. These are simple steps each employee can personally take to ensure the safety of their immediate workplace. They are:

- I understand my permit to work and all the hazards involved in my work
- My route to my workplace is safe
- All my tools and equipment are in good working order
- My workplace is safe
- I am aware of all work being carried out around my workplace.

We carried out 1,850 internal site safety inspections in 2011 and stopped operations on 266 occasions as a result of safety violations. Most violations related to inadequate reinforcement for tunnel roofs and workings. This year, one employee was dismissed and 638 were subject to disciplinary proceedings for violations found during inspections.

We received 20 reports of concerns through our 24-hour anonymous phone line, compared with 21 in 2010. The majority of reports received did not relate to health and safety and were sent to the relevant departments for resolution. Four reports did relate to health and safety. These allegations related to ventilation on a specific level at a mine, contractor equipment that did not meet our standards, penalties for health and safety violations, and an injury that actually occurred outside the workplace. All four incidents were carefully investigated and actions taken in response.

After analysing the causes of fatalities and injuries, we have developed a more detailed set of 35 Group health and safety standards for the areas where most incidents occur. These include contact between moving equipment and pedestrians, working at height, isolation of energy sources, handling explosives and use of lifting equipment. Some standards were introduced in 2011, others will be implemented in 2012.

Fatalities

We are deeply saddened that 19 employees and five contractors lost their lives at our managed operations in 2011. Whilst this is an improvement on 27 employee and five contractor fatalities in 2010, one fatality is too many. We have restated our fatal accidents figure for 2010 to include one fatality caused by a road accident that occurred off site.

Of the five contractors who sadly died, three worked in the Mining Division and two at the Ekibastuz power plant. Details of actions taken in response are found in the section below under 'Contractor Safety'.

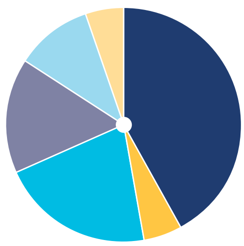
The employee fatalities represent 0.19 fatal injuries per million hours worked. Rock falls were the most common cause of fatalities among employees, and led to eight employee accidents in 2011. It is essential to introduce proper structural support immediately after excavation. We invested heavily in new equipment for this purpose in 2011, including nine roof-inspection trucks and 14 roof-bolting machines. In addition, specialists from the Mining Division are taking part in scientific studies into rock mass management and subsidence due to mining, with a view to developing safer and more efficient working practices.

We have identified that the underlying cause of many fatal accidents is failure to isolate and make safe an energy source before work starts. By energy source, we mean any mechanical, chemical, thermal, electric, electromagnetic or other types of energy. To prevent further incidents like this, we have introduced new standards and procedures for identifying energy sources and ensuring they are made safe before work begins. We are also centralising the purchase of isolating equipment to ensure new items are of the right quality and specification, and are refreshing our training to ensure relevant employees understand how to use equipment safely.

We investigate every fatal incident and serious incident and report findings to the GHSE Committee and Fatal Accident and Serious Incident Review Panel. The investigation reports are sent to department heads and the HSE Committee chairman as soon as they are completed. We continue to provide financial support to the families of the victims of fatal accidents.

Employee fatalities by cause in 2011

Rock fall	42%
Falling objects	5%
Contact with machine parts	21%
Self-moving equipment and pedestrians	16%
Electrocution	11%
Exposure to extreme temperatures	5%



Incidents and injuries

In 2011, our employees experienced 155 lost time injuries (LTI), a 6% increase on 2010. An initial increase in the frequency of LTIs, from 1.47% to 1.55 per million hours worked, is to be expected as we encourage incident reporting as part of our drive to improve health and safety. The main causes of LTIs were slips, trips and falls and rock falls.

The Ekibastuz GRES-1 power station experienced one LTI in 2011, compared to seven in 2010. Though it is hard to pinpoint the precise root of this improvement, contributing factors are likely to include weekly meetings to discuss issues arising during audits and inspections, as well as strict contractor management (see below).

We are also implementing Emex incident management software for our facilities. The software will record all incidents and corrective action taken centrally, and identify trends. During 2011, we finished translating the system into Russian. We are now customising it to reflect our Group health and safety standards and regulatory requirements, and we are inputting historical data on injuries and occupational diseases. We will begin using the system in 2012.

Our Zhezkazgan Complex has introduced a range of measures to reduce safety incidents. For example, in December 2010 the region issued three safety tickets to each employee; green, yellow and red. Employees lose their green ticket for their first safety violation, and may also receive a financial penalty. The yellow ticket is lost after the second violation, and the employee must retake the entire 40 hours of initial safety training. After the third violation, employees lose their red ticket and usually their job. In line with Group policy, employees will also be dismissed at any time if they break one of our 10 key safety rules.

Contractor safety

We select competent contractors using a matrix of safety requirements, and record and investigate all fatalities involving their employees. We will terminate contracts with companies that fail to meet our safety standards. We train site managers to reinforce their responsibility for managing contractors and, in 2011, two safety specialists from the Ekibastuz GRES-1 power station received additional contractor management training.

The two contactor fatalities experienced at Ekibastuz GRES-1 this year are particularly disappointing. Both affected parties worked for subcontractors to companies we directly employ, and these are often small firms with few resources for safety training and implementation. Ekibastuz GRES-1 responded by introducing stricter contractor management. Examples include increased supervision for contractors working at night, and meeting with a contractor's entire team to discuss safety violations, rather than just the individual involved. There have been no fatalities at the power plant since these new controls were introduced.

Safety training and communication

A safety culture relies on employees being aware of safe working practices and having the skills to apply them. We have created a dedicated HSE team within our training and development department to ensure this is always the case. In 2011, almost 26,000 employees of our Mining and Power Divisions received an average 41 hours of health and safety training each.

Instilling safety know-how

In 2010, we described our new bespoke health and safety training course, developed and delivered on our behalf by experts from DuPont, an established safety leader.

DuPont has now run four training modules, one in each quarter of 2011 and each on a different safety topic: root cause analysis, risk assessment, behavioural auditing and safety leadership. We piloted each module with senior Kazakhmys employees to ensure the training was effective before running it in full.

The training took place at four sites: Balkhash, the East Region, Karaganda and Zhezkazgan. Where possible, the workshops were delivered at operational locations so exercises could take place in a real-life setting. In total, 440 of our site managers and safety officers attended. The DuPont team then trained a smaller group of 20 internal trainers to create the in-house expertise to deliver the course to the next level of line management. To date, 1,839 line managers have been trained internally and training will continue through 2012.

Training is just one important element of our efforts to instil a safety culture. In the first quarter of 2012, DuPont began to review and upgrade our corporate safety standards in line with international best practices. They will help us to implement the revised standards to ensure they translate into a real reduction of risk to employees. Later in 2012, DuPont representatives will provide more in-depth practical training to employees in areas including safety audit and documentation. This will help employees to put into practice what they learned during DuPont's classroom training.

Corporate Responsibility – continued

Safety training takes place in classrooms on-site at our mines or at our technical colleges in Balkhash and Satpayev. New employees receive 40 hours of detailed training tailored for each profession, and all employees attend an annual health and safety refresher course.

We have completed delivery of our new internal safety qualification, and in 2012 we will focus on rolling out the training to the next level of line management. There is more information in the case study on page 81. Examples of safety communications during the year include distributing printed booklets on our 10 key safety rules and five steps towards safety, specific to employees and contractors at the Ekibastuz GRES-1 power station.

Occupational health

We continue to offer occupational and general health services to employees, contractors, their families and communities. In 2011, we restructured our medical facilities to increase efficiency and began to upgrade equipment. We now operate 42 medical facilities, including a major medical centre at Zhezkazgan and 38 smaller medical stations across our operations.

We monitor occupational health risks including noise, vibration, temperature, lighting and radiation at all production sites. All employees receive medical examinations when hired and then on an annual basis. This is to prevent occupational diseases and to detect and treat those that occur at an early stage. We closely monitor employees whose work exposes them to health risks such as dust-induced lung disease and hand-arm vibration syndrome, and those at high risk of circulatory disorders.

In 2011, the number of new occupational health cases reported in the Mining Division was 347, a rate of 3.84 per million hours worked and an increase from 202 cases in 2010. Last year's figure has been restated from 127 to show the total number of cases rather than number of people affected. The increase in new cases in 2011 is a result of improved diagnosis. The most common work-related illnesses included bronchitis, silicosis, hearing loss and lower-back pain. We pay 80-90% of the cost of rehabilitation for employees with occupational diseases.

Progress on 2011 commitment

Our 2011 commitment was to deliver our new internal safety qualification to all site managers and health and safety officers. In total, 440 site managers and safety officers attended our bespoke training workshops, representing a large proportion of the total but not 100%. The DuPont team also trained 20 internal trainers, who have already delivered the course to 1,839 additional employees at the next level of line management. This training will continue in 2012. A case study with further details is set out on page 81.

Long-term goal

Zero fatalities

2012 target

20% reduction in total safety incidents (including fatalities, serious and minor injuries and micro traumas) from 2011, from 252 to 202.

Employees

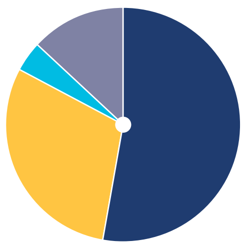
Investing in our people is essential for growth. We aim to create a competitive advantage by maintaining a skilled, committed and well-motivated workforce. This involves human resources (HR) processes that directly improve business, such as training, development and performance management, as well as practices which support our business by improving employees' experience of work, and therefore their loyalty and productivity. These include treating employees with respect and providing good working conditions, work-life balance and security of employment.

In 2011, we reorganised our HR department to provide clear leadership and accountability for each process: Operational HR, Support Services, Organisational Effectiveness, Recruitment, Pay and Benefits, and Training and Development. Each of these six functions now has a dedicated manager who reports to the Group HR Director. This senior team leads a 550-strong department tasked with ensuring our HR practices meet global standards. This will ensure we are better placed to deliver the Group's long-term goals efficiently and at the right cost.

We have also reviewed our policies and procedures for each HR function, and will roll out a full suite of new or revised Group HR policies in 2012.

Employees by division

Production	53%
Maintenance and services	30%
Construction	4%
Administration and other	13%



Code of conduct

Behaving responsibly and with integrity towards each other, our customers, regulators, contractors and suppliers is essential. One HR priority is to introduce a business code of conduct to describe the behaviour we expect from everyone who works for Kazakhmys. This activity will strengthen our compliance with the UK Bribery Act 2010.

Our policies on bribery and anti-corruption are available on our intranet. As a next step, we are improving the training we provide to all directors and senior managers on these topics. All employees at our London office plus key executives in Kazakhstan received anti-corruption training in 2011. They are required to pass on their knowledge to relevant employees under their management. Our next step will be to develop a written code of conduct.

Training and development

We invest heavily in training and education for all employees to support our growth and achieve our goals, and so our people can develop rewarding careers with us. Our Mining Division has an annual plan that identifies priority areas for training and allocates its training budget. We provide higher education as well as classroom and operational training in mining subjects on-site and at our technical colleges in Satpayev and Balkhash.

In 2011, the Kazakhstan government recognised our investment in our technical colleges by naming Kazakhmys the best private partner for technical and vocational education. This honour recognises not only our financial investment - Kazakhmys is the country's largest private investor in education – but also our involvement in setting the curriculum and provision of guest lecturers and practical training at our sites.

In 2011, we invested $2.2 million in operational, health and safety training, or retraining in a new speciality. In addition, the Mining Division continues to sponsor part-time study in subjects of high importance to the business for 200 promising employees aged up to 35 years, and a total of 650 employees remain in further or higher education at our technical colleges or external colleges and universities.

We continue to invest in the next generation of company leaders, to provide internal candidates for promotion and development when senior positions become available. A case study setting out more details is shown opposite.

We also invest in training for potential new employees in our priority professions. In 2011, Kazakhmys sponsored more than 1,000 school leavers to continue their studies at universities, institutes and colleges in Kazakhstan and abroad. We employed 76 Kazakhmys-sponsored university and college graduates and 122 graduates of our own technical colleges, on the condition that they will work for Kazakhmys for four-to-five years. We also sponsored 17 graduates in geology or mining from Karaganda technical university to study an 18-month geo-technical Masters degree on a similar basis.

Investing in future leaders

Our new 'High Potential' programme is identifying and shaping future leaders throughout our business to ensure they are encouraged to continue their careers at Kazakhmys.

In 2011, we began by selecting 2,000 promising employees from across our workforce to undergo aptitude testing for the programme. An external supplier carried out the testing to ensure it was done fairly and objectively. We used the results to select 331 employees with the potential to help lead our business in the future.

The next phase will narrow the field to 100 employees. Each of the 331 shortlisted employees will be interviewed by a functional director, each of whom will select the best candidates for the final list. Those with 'High Potential' will then receive the training needed to ensure they are suitable successors for key management roles. Training will range from Masters degrees to visits to leading companies and best-in-class mines around the world. The 231 employees who do not make the final list will continue to benefit from our talent management programme.

Though still in development, we intend to continue the Top 100 programme in some form each year.

Corporate Responsibility – continued

Pay and benefits
Fair and competitive remuneration is essential for attracting and retaining a talented workforce. Our performance management system ensures we judge employee's performance objectively against set criteria, and reward them appropriately.

Remuneration can also incentivise good health, safety and environmental practices. Since January 2012, 50% of the monthly bonuses for all operational employees are dependent on achieving health and safety performance targets. The remaining 50% is based on production targets. In the first quarter of 2012, we plan to introduce an additional 5% bonus for employees maintaining a clean safety record each month. Bonuses for divisional heads are in part based on compliance with Government-set environmental targets and the amount of environmental fines incurred.

Kazakhmys contributes to defined contribution pension schemes in Kazakhstan in line with legal requirements, as well as in the UK. We describe our share plans for senior executives on page 115.

The Mining Division provides medical services for most employees and retirees at significant discount. In addition, employees and retirees unable to pay their medical costs can apply for funding to cover their treatment at medical institutions in Kazakhstan and abroad. In 2011, a total of 6,666 employees and 88 retirees received treatment through these two options.

To date, the Mining Division has also funded leisure facilities, which 3,692 employees, 510 retirees and 259 relatives used this year. Over 3,300 of our employees' children spent their holidays at our summer camps. Where appropriate, we plan to transfer ownership and/or maintenance of these facilities to local authorities or private contractors. This will reduce our costs and enable us to focus on our core business.

Equality and diversity
We want our workforce to reflect the local population and to benefit from the variety of skills and experience within it. We recruit, develop, train and reward employees based on merit, and support the employment of disabled people with appropriate skills, provided our working environment can safely accommodate their needs.

Women can be hard to attract to mining careers so we are proud that around 34% of employees are female. More specifically, 63% of our engineers and technical personnel and 21% of managers are women.

The Group employs a small number of foreign nationals in Kazakhstan, generally to address skill shortages in the short term, or where those individuals are particularly experienced. Our employee training and leadership development programmes aim to build knowledge and skills among existing employees, to benefit the local workforce and reduce dependence on 'expat' labour. At the end of 2011, 98% of Kazakhmys managers in Kazakhstan were Kazakhstani citizens.

Consultation and communication
We aim to involve employees in decisions that may affect them and to keep them well informed about business strategy and performance. These efforts are important for retaining and motivating our workforce. In 2011, we recruited an HR communications specialist to work closely with the Corporate Communications department on improving the way we engage with employees. Current internal communications include team meetings, emails, and a Group-wide newspaper and intranet site.

The vast majority – 97% – of our employees in Kazakhstan are represented by trade unions, which negotiate collective employment agreements. In 2011, the trade union representing employees in Kazakhstan engaged with management on issues including health and safety, employee remuneration and collective agreements. The union held 1,516 meetings during the year. Our Youth Union has over 20,000 members and is open to most employees within the Mining Division and staff working within the captive power stations under the age of 35.

Progress on 2011 commitment
We committed to introducing standardised HR management systems and policies across the Group in 2011. Though we did not meet this target, we did develop a new suite of HR policies in 2011, and these will be rolled out in 2012. We also committed to assisting in the further development of health and safety training, and in 2011 achieved this commitment by introducing a dedicated health and safety team within our training and development department.

2012 targets
- To strengthen our bribery and anti-corruption training and introduce a written code of conduct
- To identify the 'High Potential' future leaders so we can strengthen our business by filling future management positions internally

Environment
Mining has substantial environmental impacts, which we must manage carefully during exploration and project development, throughout operations, and after site closure. This means using natural resources such as energy and water efficiently; reducing greenhouse gas emissions, waste, and emissions to air, land and water; and managing our land to protect local biodiversity.

Environmental investment and compliance
We spent a total $83 million on environmental improvements in 2011, $35 million in the Mining Division and $48 million in the Power Division. Examples of major capital expenditure include installing electrostatic precipitators and reconstructing an ash-handling system at the Ekibastuz GRES-1 power station and continuing to install emulsifiers to remove air emissions from our captive power stations. Capital expenditure in our Mining Division included repairs to ventilation units, reclaiming tailings dams, introducing wastewater treatment facilities, and repairing a recycled water system to ensure an uninterrupted supply.

In 2011, there were 341 environmental site inspections to monitor our performance and identify improvements. Of these, 284 were within the Mining Division and 57 in the Power Division; 228 were internal audits and 113 were conducted by Government inspectors or regulatory bodies.

Of the external inspections that took place, 84 were planned and 29 were unannounced. Government inspectors and regulators identified 205 improvement measures during their visits, 175 within the Mining Division and 30 at the Power Division. Of these, 124 have been implemented and the remaining 81 are in progress to be completed by the agreed deadline. Measures included replacing worn seals on a flue track and installing ventilation equipment at a truck-servicing station.

Internal inspections identified 802 improvement measures, all of which will be implemented and 578 of which are already complete. These measures mostly involved removing waste from sites and replacing pipes.

Energy use and greenhouse gas emissions

We are both a major producer and user of energy. We create greenhouse gas (GHG) emissions through coal combustion in our power stations, plus processes at our copper mines and production facilities. National and international policies and measures for tackling climate change will increasingly affect our coal mining and power generation businesses, presenting regulatory, financial and reputational risks. In particular, the Government is implementing a domestic emission trading scheme to reduce GHG emissions (see the case study opposite for more details).

In 2011, total energy use for the Group was 6,817 GWh. The Mining Division used 5,218 GWh compared with 5,833 GWh in 2010, which equates to 0.02 GWh per tonne of copper cathode produced, the same as in 2010. This reduction reflects the fact that we now report data for the captive power plants within the Power Division. Of the energy used, 76% was electricity and 24% was thermal power. Our Power Division used 1,599 GWh of energy of which 94% was electricity and 6% was thermal power.

Our Power Division generated an additional 17,015 GWh of energy for sale to third parties; 12,697 GWh of electricity at Ekibastuz GRES-1 and 4,318 GWh of electricity and thermal power at captive power plants.

The Mining Division produced 2.8 million tonnes of carbon dioxide equivalent (CO_2e) in 2011. This includes emissions from power supplied to communities and so is not solely connected to copper production. The Power Division produced 21.4 million tonnes of CO_2e during the year, bringing the Group total to 24.2 million tonnes – slightly less than 24.4 million tonnes produced in 2010.

The electrostatic precipitators being fitted at Ekibastuz GRES-1 will increase production efficiency, reducing the amount of coal required per unit of energy produced and therefore the associated GHG emissions. We expect to see emissions fall as the remaining six precipitators are fitted by the end of 2016.

Emissions to air

Copper smelting produces substantial amounts of sulphur dioxide (SO_2) which, if released, reduces air quality and aggravates breathing difficulties. Other emissions include nitrogen oxides (NO_x), arsenic, ash and dust.

We maintain low levels of SO_2 by transforming the emissions into sulphuric acid at a production plant near our Balkhash smelter. In 2011, the plant experienced less maintenance downtime than the previous year, and increased production to 913,524 tonnes of sulphuric acid compared with 826,695 tonnes in 2010. This accounts for 87% of the SO_2 emissions produced at the complex.

Our Mining Division created 122,487 tonnes of SO_2 in total in 2011, which equates to 0.41 tonnes of SO_2 per tonne of copper cathode. However, the 2010 data includes our captive power stations, which are now reported as part of the Power Division. Comparing like-with-like with 164,550 tonnes in 2010, our Mining Division and captive power plants together emitted 172,390 tonnes of SO_2 this year, an increase of 4.8%. The increase partly reflects the inclusion of data from our Gold business for the first time, although we also processed material with a higher sulphur content at the Balkhash smelter.

Preparing for regulatory change

We are developing a Group-wide energy efficiency programme to reduce costs and greenhouse gas (GHG) emissions from our operations, and to prepare for the forthcoming Kazakhstan emissions trading scheme.

The Government is implementing a domestic emissions trading scheme to reduce GHG emissions, based on the cap-and-trade system used in the European Union. Carbon allocations are expected to become effective on 1 January 2013.

In response, our captive power plants, smelters and transport operations are developing site-specific three-year energy efficiency and GHG emission reduction plans. We have commissioned an external energy management consultant to help us identify opportunities for reductions. The plans will be finalised by the end of 2012 and implementation will begin early in 2013. All plans will include annual emission reduction targets for 2013 to 2015.

Corporate Responsibility – continued

The Mining Division produced 1,390 tonnes of NO_x emissions in 2011, or 15,363 tonnes when including captive power plants for comparison with 2010. This is an increase of 9% from 14,049 tonnes in 2010, again in part due to the inclusion of the Gold business and partly because of the quality of coal used by our captive power plants.

Ash emissions from captive power plants have reduced following the installation of battery emulsifiers at power plants in Zhezkazgan, and at Ekibastuz due to the commissioning of an electrostatic precipitator in 2010. The second precipitator was launched in December 2011 and will lead to similar emissions reductions. We plan to launch another six precipitators. In 2016, when all eight are in place, we anticipate a fivefold reduction in total ash emissions.

In total, our Power Division produced a total 141,304 tonnes of ash emissions this year (captive power plants: 76,279 tonnes; Ekibastuz power plant: 65,025 tonnes).

Water use and emissions

Water supplies can come under pressure as populations grow and industrialise. Mining and power generation use large volumes of water for cooling plant and equipment, and this is sometimes withdrawn from the same supply used by local communities. The water is recycled many times and topped up from the local supply only as it evaporates.

Kazakhstan does not generally suffer water shortages, though in remote areas where water treatment systems are limited, potable water is still scarce. In addition, some areas including Zhezkazgan suffer drought in the dry season, and the local authority may reduce a facility's withdrawal limit if this is the case. For these reasons, water efficiency is critical to the long-term viability of these operations.

Water use is overseen at Group level but managed at site level, as it is a local issue. Typical site action plans include repairs to plant and pipes to meet the requirements of water permits issued by the local authority. Where possible, we avoid using the community's water supply. For example, our operations in Zhezkazgan no longer take water for cooling from the Kengir River which supplies the local community, and instead uses a separate reservoir not used for drinking water.

We are restating our water consumption for 2010 as it was incomplete, and also to include new withdrawals only. We now exclude recycled water that may have passed through the production cycle several times during the year. On this basis, our Mining Division and Ekibastuz GRES-1 power station used 882,549 megalitres in 2010. In 2011, total water consumption at our Mining and Power Divisions was 928,186 megalitres, an increase of 5%. This reflects the inclusion of the Gold business in the Mining Division figures, plus increased water use for cooling during this year's hot summer. In addition, we have installed water meters at captive power plants which enable us to more accurately measure our usage.

Of the water withdrawn, almost 95% was non-potable and did not affect local drinking water supplies. In addition, our operations stored and recycled a total 1,848,006 megalitres of water.

All sites carefully control the quality of water they discharge to avoid polluting local water sources and our emissions to water are generally far below permitted levels. Our Mining and Power Divisions discharged 730 million cubic metres of wastewater in 2011 (Mining Division: 4 million cubic metres; Power Division: 726 million cubic metres). This water is discharged directly into water or land courses after treatment or, where necessary, contained in secure evaporation ponds. The water treatment system installed in the East Region in 2010 became operational this year, removing 99.9% of trace copper, 98.7% of cadmium and 98.0% of iron from the Region's wastewater. There are no discharges from the Ekibastuz GRES-1 power station as all process water is reused.

In 2010, we experienced two water contamination incidents. The first occurred when a dam on a sludge reservoir broke at our Irtysh mine in the East Region, releasing 12,000 cubic metres of wastewater into the Bezymyanny stream. The dam was fully rebuilt within two months, and our internal investigation found that the incident was caused by excess melt water following heavy snowfall the previous winter. We have agreed an action plan with the local authority that includes inspecting all sludge reservoirs daily during flood season, the design of a new sludge reservoir and the construction of a ditch around the reservoir to capture floodwater.

The second incident was caused by a bulldozer damaging a storm drain and causing 97,000 cubic metres of wastewater to spill into Lake Balkhash. Kazakhmys paid damages of more than $40,000 and has erected additional hazard warning signs in the area. In 2011, we experienced a separate incident in which untreated water leaked from the Balkash smelter into the power plant's reservoir, from where it was discharged into Lake Balkhash. Kazakhmys paid around $60,000 in fines and damages and will reconstruct the storm water collection and diversion system to prevent future incidents. The system has been designed and has received the necessary permits. Reconstruction of the storm water drainage pump station and sewer will be completed in 2012.

Land management

We recognise the need to minimise land disturbance and protect biodiversity throughout the life of our operations. Permits for projects and operations require us to carry out environmental impact assessments before work takes place, and legislation requires us to rehabilitate sites that have closed down.

Our operations use overburden, ash and slag to backfill mines and restore landscapes, and plant greenery on and around their sites. The Mining Division sets aside funds for site restoration as a condition of its contracts and subsoil licences, which totalled $54 million at the end of 2011 compared with $49 million as at 31 December 2010.

Waste

Waste reduction and recycling is becoming increasingly important as regulatory requirements increase. The Government is introducing new legislation aimed at reducing waste and restricting where it can be disposed. This legislation will apply to all types of mining waste, including waste rock and overburden from mining and tailings and slag from smelting.

We will prepare an action plan when the exact requirements are clear, and this is likely to include greater reuse of overburden for backfilling and landscaping. We store tailings in special dams to prevent leaching into the soil and water sources, and are exploring technologies for extracting any residual minerals, which could be sold to create an additional income stream. Our power plants create solid wastes such as fly ash and slag. Other wastes created by our operations include sludge from our wastewater treatment facilities, slime from our sulphuric acid plant and general waste.

In 2011, our Mining and Power Divisions generated 119 million tonnes of waste, compared with 108 million tonnes in 2010. This 10% increase reflects the inclusion of the Gold business in the Mining Division figures, extra overburden produced during stripping works that took place at our copper and coal mines and additional tailings from processing increased ore output.

We recycled 36% of our waste this year, and continue to seek further opportunities for reuse. For example, the Ekibastuz GRES-1 power station is exploring the possibility of selling ash-slag waste for use as a raw material in construction materials. We have carried out chemical analysis of our ash which confirmed it is suitable for this purpose. Selling the ash for use in construction materials would reduce our waste and the related storage and disposal costs. We have installed ash-extracting equipment on our electrostatic precipitators and are now analysing demand. The installation of each new precipitator will increase the amount of ash available for sale.

Progress on 2011 commitment

We committed to install and launch the second electrostatic precipitator at the Ekibastuz GRES-1 power station in 2011, and this has been achieved.

2012 targets

- To reduce ash emissions from the Ekibastuz GRES-1 power station by 7.5%, from 65,025 tonnes in 2011 to 60,165 tonnes in 2012.
- To implement an energy management system at all captive power stations.
- To finalise energy efficiency and greenhouse gas reduction plans and targets for all captive power stations, smelters and transport operations.

Communities

Our operations create employment, do business with local suppliers and invest in local infrastructure. Many are in remote areas and the local communities only exist because of our presence. We want to support these communities to become sustainable, by fostering economic development and ensuring local people and firms benefit from, but do not rely on our business. In addition, we aim to minimise any disturbance our operations cause, such as increased noise, dust, traffic and competition for resources.

Kazakhmys is one of the largest employers and taxpayers in Kazakhstan, and our revenue represents approximately 2% of the country's gross domestic product. In 2011 we paid over $780 million in taxes in Kazakhstan. A table providing a full breakdown of taxes paid is available on page 71. The majority of our 60,819 employees are Kazakhstani citizens whose income taxes and spending contribute to the country's economic growth.

Community consultation

In Kazakhstan, consultation about operational activities that may affect a community takes place through the local authority. Our subsoil licences also require us to involve local residents in the development of new operations.

Local and regional officials are involved in identifying the projects that benefit from social investment under our licence agreements, to ensure they address local priorities (see the section below under 'Social Investment').

Economic development

Economic development in the communities surrounding our operations is essential if they are to continue to thrive when mining operations eventually cease. We continue to support Made in KZ, a Government programme that boosts small and medium-sized Kazakhstani companies by certifying that their products, or a proportion of them, were produced in the country.

Our local sourcing unit assesses local companies' ability to supply us and helps them meet our requirements. It then recommends successful suppliers to our centralised procurement department. At the end of 2011, 59 out of 311 companies on our trusted supplier list were Kazakhstani. The unit visited more than 60 Kazakhstani companies during the year to assess opportunities to work together, and we are now doing business with 27 of them.

We measure the amount we spend on goods and services, including those produced in Kazakhstan by Kazakhstani companies, both voluntarily and under licence. In 2011, our Mining and Power Divisions spent $785 million on locally made goods. This represents around 50% of combined spending on goods and services.

Corporate Responsibility – continued

We directly finance capacity-building projects for a small number of suppliers by providing interest-free loans. In 2011, we continued to support three companies which received loans the previous year, and made one further loan. The three companies financed in 2010 have used the funds to upgrade equipment and start new product lines not previously available in Kazakhstan. The fourth loan of $800,000 will enable the Pavlodar Welding Company to upgrade its production systems and achieve the output and quality needed to supply Kazakhmys in the future.

Disappointingly, there has been no demand for the longer-term loans made available in 2010 through a memorandum of understanding between Kazakhmys and the Kazakhstan Development Bank. A similar initiative for larger loans that we had hoped to launch in 2011 is on hold.

We invest in several joint ventures to create local supplies where none currently exist. One example is KazBelAZ in Karaganda, a joint venture with a Belarussian truck company which we manage and have a 51% stake in. KazBelAZ began producing spare parts for trucks in 2011, and plans to scale up to full truck assembly are on schedule for 2014. The MyShina tyre recycling plant we set up in Zhezkazgan increased production by 58% in 2011, retreading 950 tyres compared with 600 in 2010. The plant aims to retread 1,300 tyres during 2012.

Social investment

Our Mining Division invests heavily in the construction and maintenance of schools, hospitals, cultural and sports facilities, as well as the development of infrastructure surrounding our operations. Some of this investment is voluntary, some is done within agreements signed with regional authorities, and some is required by our subsoil licences, which all include some social provision. Projects to be financed under licence agreements are selected by local and regional officials to ensure they address the area's priorities. Requests for voluntary donations are assessed against how closely they relate to our operations, to ensure our investment benefits our business and employees as well as communities.

We own a large number of social facilities that the Group inherited along with its operations. Where appropriate, we plan to transfer some into the beneficial ownership of local authorities and to sell others to third parties. This will reduce our costs and enable us to concentrate our investment on the growth of our business – for the long-term benefit of our shareholders, employees and local communities. We will provide support for affected employees at these facilities, and seek alternative employment for them elsewhere where possible.

Fostering local economic development

New organisations in two of our main operational regions are helping local companies to join forces.

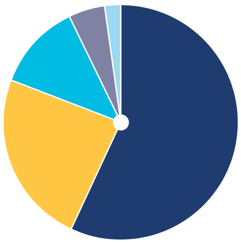
In 2011, Kazakhmys led the creation of two supplier associations for small and medium-sized companies, to help them develop the quality and skills needed to do business with Kazakhmys. The first association, in Balkhash, represents 44 companies with over 3,100 employees. The second, in Zhezkazgan, has 52 members with more than 1,800 employees. Some companies were already suppliers, and others were seeking our business for the first time.

During the year, we signed contracts with members of the two associations worth $2.7 million. Some of the suppliers are social enterprises, such as an overall supplier that employs visually impaired people, and an equipment firm whose staff include prisoners. Kazakhmys provides financial support and advice to member companies, and encourages them to do business with each other to expand their customer base. For example, we provided over $27,000 for repairs to one company's premises, which another member company carried out.

In 2011, the Mining Division invested $79 million in education, sports and culture, infrastructure, and sponsorship and charitable donations both voluntarily and under licences and agreements. The social spending excludes social contributions of $4 million to employees and takes into account medical and social support contributions of $5 million made to communities.

Breakdown of social investment under licences and agreements, by category

Sponsorship and donations[1]	57%
Sports and culture	24%
Education	12%
Infrastructure	5%
Public health	2%
Total	**100%**



[1] Includes $2 million spent on social activities for employees

Sponsorship and charitable donations was the largest category of social investment in 2011. We support public funds and organisations that help disadvantaged groups and the environment. For example, we have donated more than $300,000 to an environmental fund in Ust-Kamenogorsk in the East Region to help combat the town's air pollution problem. The money contributed to the cost of a $900,000 automated air and water-quality monitoring system which will be used to identify the source of pollution and identify appropriate remedial action. Our donations in 2011 also included over $1 million aid to Akzhayk Charitable Fund for the victims of spring floods in west Kazakhstan. The money contributed to the reconstruction of housing for people in affected areas.

We invest in infrastructure, cultural and sporting activities to create thriving communities in the remote areas where we operate. For example, this year we began rebuilding a community centre in Zhezkent, where local people hold concerts, meetings and training courses. Work is due for completion in 2012. We also built an indoor hockey rink in Ust-Kamenogorsk with a capacity for 400 spectators, and construction of a second rink to be completed in the first quarter of 2012 continues, at a cost of nearly $4 million. Both facilities will belong to nearby secondary schools, and will also be available for students from other local schools.

December 2011 marked the 20th anniversary of independence in Kazakhstan and much of our social investment this year contributed to the celebration, though the facilities we funded will be available for communities to enjoy for years to come. For example, as part of our licence agreement in Karaganda we funded $24 million towards the construction of a tennis centre and an ice rink that was opened by the President of Kazakhstan, Nursultan Nazarbayev. We also funded three monuments to local historical figures and an obelisk in the city centre.

The $3 million reconstruction of a kindergarten in Zhezkazgan is now complete, providing day care for 255 children. In addition to well-equipped classrooms, the kindergarten has a swimming pool, gym, dance and arts studios, as well as medical facilities including a speech therapist and psychologist. Kazakhmys has built and maintained 37 kindergartens in total, attended by around 5,700 children. Roughly 85% are the children of Kazakhmys employees. In 2011, we funded repairs at most of these kindergartens. We began building a new kindergarten in Kunayev village near our Shatyrkul mine at a cost of over $1 million. The kindergarten will take 100 pupils and be completed by the end of 2012.

Progress against 2011 commitment

In the 2010 Annual Report and Accounts we committed to launching a new Social Fund to manage our investment in social projects that are additional to the requirements of licences and regional agreements. We have instead chosen to create a non-commercial financing department that manages spending under licence and regional agreements and our voluntary spending, to maintain an overview of our social investment and ensure it is effective.

2012 targets

- To complete construction of a hockey rink in Ust-Kamenogorsk
- To complete construction of a kindergarten in south Kazakhstan
- To finish rebuilding a community centre in Zhezkent
- To complete the redevelopment of amenities in Satpayev and a park in Balkhash

Governance Framework

Committed to high standards of corporate governance

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

The last few years have seen a number of reviews and consultations aimed at examining and improving corporate governance arrangements, predominantly in the light of the recent global financial crisis. Following its review of the Combined Code in 2009, the Financial Reporting Council (FRC) published the UK Corporate Governance Code (the 'New Code') in June 2010 which superseded the Combined Code and applied to companies with a premium listing on the London Stock Exchange with accounting periods beginning on or after 29 June 2010, which for Kazakhmys is this financial year ended 31 December 2011.

The Company has reviewed the New Code during the year and taken the opportunity to review its Board practices and governance procedures to assess how best it can comply with all of the recommendations to ensure the continued successful operation of the Group's business. During the year, the terms of reference of the Board and its committees, and a number of other policies and procedures were reviewed and updated to ensure they fully reflect the principles and comply with the provisions of the New Code, and to meet best practice. All these policies and procedures were brought together into a single document entitled 'Group Policy Guidelines on Corporate Governance' with the aim of better promoting a culture of pragmatic corporate governance through raising awareness of the policies and procedures amongst senior management.

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

This year's Governance Framework report explains in detail how the Company has applied the principles and complied with the provisions of the New Code, and also provides further details of the matters the Board and its committees considered during the financial year. However, I would like to draw your particular attention to some specific points.

Board role and effectiveness

The core purpose of the Board is to create and deliver the long-term success of the Company and long-term returns for shareholders. This requires the Board to set the Company's strategic aims, ensure that the necessary financial and human resources are in place to achieve the Company's objectives, review management performance in delivering against strategy and set the Company's risk appetite. The Board needs to ensure that the risk management measures and internal controls that are put in place are appropriate and effective. Finally, the Board must remain aware of its obligations to the Company's shareholders and other stakeholders and respond to their needs with transparent reporting and active engagement.

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

Board evaluation and Director re-election

We welcome the recommendation in the New Code that externally facilitated performance evaluations of the Board, its committees and its individual Directors should be undertaken every three years as this is consistent with the approach currently adopted by the Company. Furthermore, as recommended by the New Code, all directors will be submitted for re-election on an annual basis, subject to continued satisfactory performance, commencing from the Company's Annual General Meeting in 2012.

Diversity

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

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

The Board consists of Directors of different ages with a wide range of skills and business experience from a number of industries, which is critical for bringing both the expertise required, and to enable different perspectives to be brought to Board discussions. Furthermore, the Board comprises a range of nationalities, which brings cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from a diverse range of competencies, perspectives and thoughts, avoids group think and provides a dynamic environment for decision making.

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

Shareholder engagement

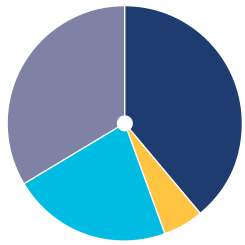
Engaging with shareholders is one of the key aspects of corporate governance. During the year the Chairman, Chief Executive, Chief Financial Officer and I, supported by the Group's corporate communications team, have regularly met with institutional shareholders and analysts. The Board also received regular reports from the corporate communications department on its activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood. This will remain a key focus for the Board in 2012.

At the Company's Annual General Meeting in 2012 all Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues they may have. I encourage as many shareholders as possible to attend the Annual General Meeting on 11 May 2012.

Philip Aiken
Senior Independent Director

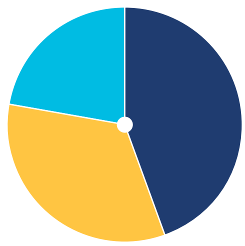
Director's experience/backgrounds

Metals and mining	78%
Power	11%
Oil and gas	44%
Finance	67%



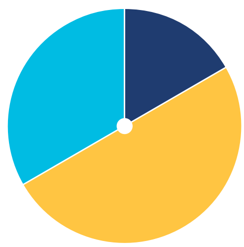
Director's nationality

Kazakhstani	4
British	3
Australian	2



Length of Tenure of Non-Executive Directors

0-2 years	1
3-4 years	3
5-6 years	2



Board of Directors

Vladimir Kim
Chairman

Appointed to the Board: 2005

Nationality: Kazakhstani

Skills and experience: Vladimir Kim joined the Group in 1995, when he was appointed managing director and chief executive officer of Zhezkazgantsvetmet JSC and was elected chairman of the board of directors of that company in December 2000. He was appointed Chairman of the Company in 2005 prior to its listing on the London Stock Exchange. With extensive knowledge of the mining industry, a thorough working knowledge of the CIS and an exemplary understanding of the political and regulatory environment in Kazakhstan, Vladimir Kim brings extensive Kazakh mining experience and effective Board management skills. Age 51.

Committee membership: Chairman of the Nomination Committee.

Oleg Novachuk
Chief Executive

Appointed to the Board: 2005

Nationality: Kazakhstani

Skills and experience: Oleg Novachuk joined the Group in 2001 and was appointed Chief Executive in 2007, having been Finance Director since 2005. He was formerly vice president of financial projects for Kazakhmys Corporation LLC and the financial adviser to the president of Kazakhmys Corporation LLC, and chairman of the board of directors of Kazprombank JSC. Age 41.

Eduard Ogay
Executive Director

Appointed to the Board: 2011

Nationality: Kazakhstani

Skills and experience: Eduard Ogay was appointed as an executive Director in May 2011, having joined the Group in 2001 as director of marketing and international relations, becoming director of corporate development in 2005. He was appointed Chief Executive Officer of Kazakhmys Corporation LLC, the Group's principal subsidiary, in 2006, a position he continues to retain. Age 42.

Philip Aiken
Non-executive Director and Senior Independent Director

Appointed to the Board: 2006

Nationality: Australian

Skills and experience: Philip Aiken has extensive global experience in the engineering and energy sectors. He was formerly group president of BHP Billiton's energy business, an executive director of BTR plc, held a number of senior positions in BOC Group plc and was a senior advisor to Macquarie Capital (Europe) Limited. Age 63.

Other appointments: Chairman of Robert Walters plc and a non-executive director of National Grid PLC, Miclyn Express Offshore Limited and Essar Energy plc.

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

Lord Renwick of Clifton, KCMG
Non-executive Director

Appointed to the Board: 2005

Nationality: British

Skills and experience: Lord Renwick has had a diplomatic career spanning over 30 years, including serving as British Ambassador to the United States and to South Africa. He was a non-executive director of BHP Billiton plc, SABMiller plc, British Airways plc, Liberty International plc, Fluor Corporation and Harmony Gold Mining Company Limited. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board. Age 74.

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

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

Simon Heale
Non-executive Director

Appointed to the Board: 2007

Nationality: British

Skills and experience: Simon Heale has significant global marketing and business operations and management experience having been chief operating officer of Jardine Fleming Limited, deputy managing director of Cathay Pacific Airways and chief executive of The London Metal Exchange. He has also been a non-executive director and chairman of Panmure Gordon & Co plc. Age 58.

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

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

Daulet Yergozhin
Non-executive Director

Appointed to the Board: 2008

Nationality: Kazakhstani

Skills and experience: Daulet Yergozhin has been vice finance minister of the Republic of Kazakhstan since February 2012, having been previously chairman of the tax committee of the Ministry of Finance and having held a number of other governmental positions since 2006. Prior to his governmental appointments, he gained considerable exposure to the oil and gas sectors becoming deputy director of the North-Caspian project department of JSC NC KazMunaiGas before moving to a deputy director general role in JSC 'Offshore Oil Company KazMunayTeniz', a subsidiary of JSC KazMunaiGas. He also previously worked for KazTransOil JSC and has been a non-executive director of ENRC PLC. Age 32.

Clinton Dines
Non-executive Director

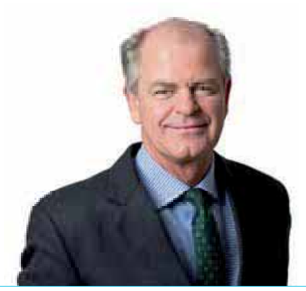
Appointed to the Board: 2009

Nationality: Australian

Skills and experience: Clinton Dines has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988, he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, became president, BHP Billiton China, a position from which he retired in 2009 prior to joining Kazakhmys. He brings exceptional knowledge of China combined with global resource industry and management experience. Age 54.

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

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



Charles Watson
Non-executive Director

Appointed to the Board: 2011

Nationality: British

Skills and experience: Charles Watson has an extensive background in both operational management and major project delivery, having spent 29 years at Shell. During his time at Shell he held a number of senior executive positions throughout the world, culminating in his appointment as executive vice president covering Russia and the CIS, including oversight of Shell's activities in Kazakhstan, chairman of Shell Russia and chairman of the board of directors for the Sakhalin Energy Investment Company. Age 57.

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

Governance Framework – continued

This section of the Annual Report and Accounts has been prepared in accordance with the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in June 2010 (the 'New Code') which applies to the Company's Annual Report and Accounts for the year ended 31 December 2011.

UK Corporate Governance Code compliance

During the year, the Company has complied fully with the provisions of the UK Corporate Governance Code (the 'New Code'), save in the following respects:

- **that the Chairman was not independent at the time of his appointment.** This arises due to Vladimir Kim's significant shareholding in the Company. Vladimir Kim joined the Group in 1995 and has made a major contribution to its development into an international company. The Board is unanimously of the opinion that his continued involvement in an executive capacity is vitally important to the success of the Group.
- **the Audit Committee did not have at least three members following the retirement of Peter Hickson as an independent non-executive Director on 13 May 2011.** Following the appointment of Charles Watson as an independent non-executive Director and a member of the Audit Committee with effect from 24 August 2011, the composition of the Committee again complied fully with this requirement of the New Code. Charles Watson was appointed a Director and member of the Audit Committee as soon as practicable following the cessation of his duties with Shell.

Leadership

The Role of the Board

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

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

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

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

Matters reserved for the Board

Key matters reserved for the Board include the approval of:

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

Division of Responsibilities

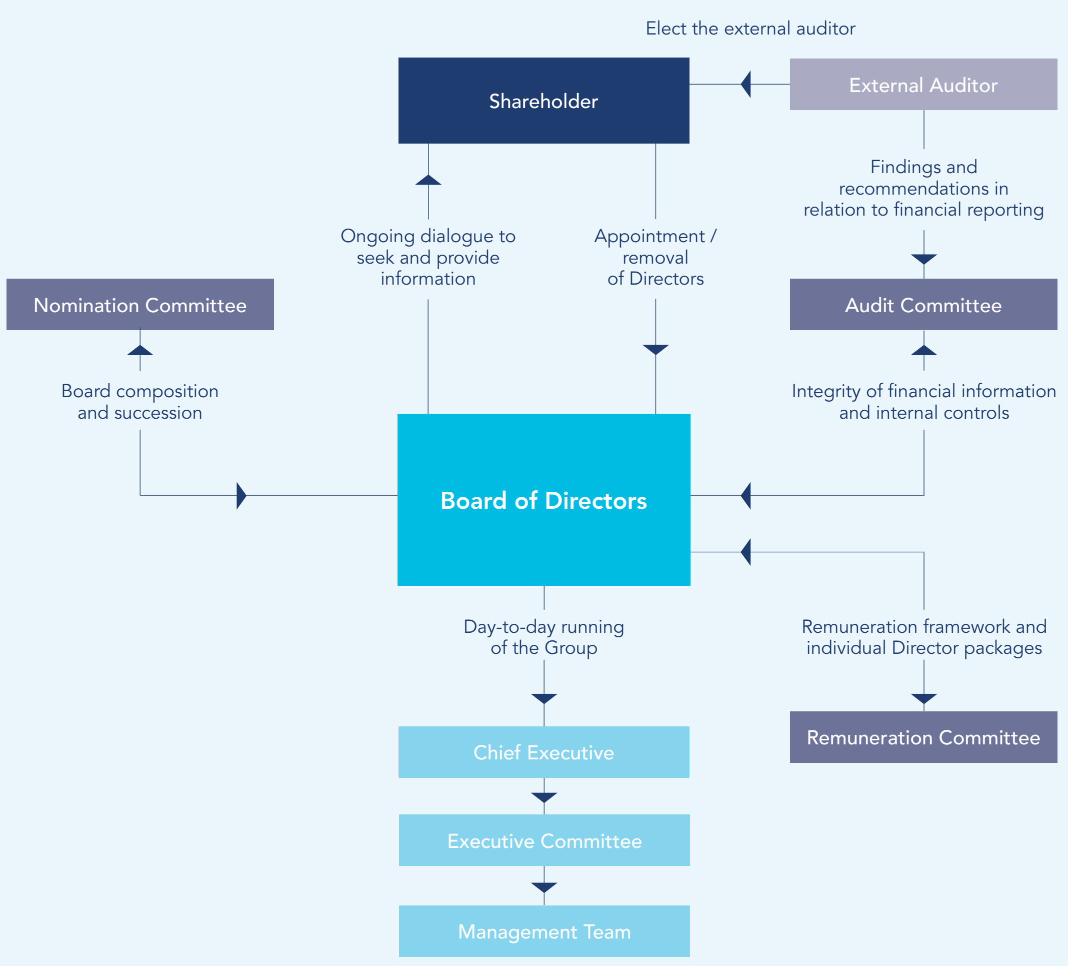
The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

The Chairman is responsible for the strategic direction of the Group, overseeing the responsibilities of management, leadership of the Board and the relationships with the Government and business community in Kazakhstan. Further details of the roles and responsibilities of the Chairman, Chief Executive and Senior Independent Director are set out on page 96.

Non-executive Directors

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

Corporate governance framework



Governance Framework – continued

Roles and responsibilities

Chairman

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

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

Chief Executive

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

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

Senior Independent Director

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

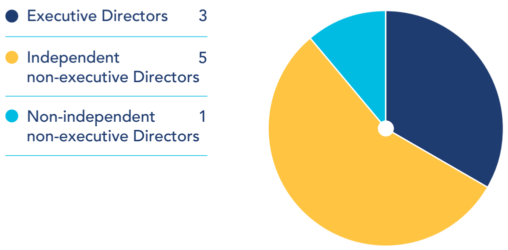
- acting as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive and Chief Financial Officer. No such matters of concern were raised by shareholders during the year ended 31 December 2011;
- acting as a sounding board for the Chairman and serve as an intermediary for the other Directors when necessary;
- meeting with the non-executive Directors (without the Chairman being present) at least annually and leading the Board in the ongoing monitoring and annual performance evaluation of the Chairman;
- monitoring the training and development requirements of Directors; and
- attending sufficient meetings with a range of major shareholders to develop a balanced understanding of the issues and concerns of major shareholders and report the outcome of such meetings at subsequent Board meetings.

Effectiveness

Composition of the Board

Effective management and good stewardship are led by the Board, which currently consists of nine Directors, seven of whom served throughout the financial year, with David Munro and Peter Hickson having retired as Directors on 13 May 2011 and Eduard Ogay and Charles Watson having been appointed on 13 May 2011 and 24 August 2011, respectively. Including the Chairman, there are three executive Directors, five independent non-executive Directors and one non-independent non-executive Director; this balance ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of the minority shareholders are protected. Biographies of all Directors are set out on pages 92 and 93.

Board composition



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

The independent non-executive Directors are:

Philip Aiken

Appointed to the Board: 2006
Nationality: Australian
Skills and experience: Philip Aiken has extensive global experience in the engineering and energy sectors. He was formerly group president of BHP Billiton's energy business, an executive director of BTR plc, held a number of senior positions in BOC Group plc and was a senior advisor to Macquarie Capital (Europe) Limited. Age 63.
Other appointments: Chairman of Robert Walters plc and a non-executive director of National Grid PLC, Miclyn Express Offshore Limited and Essar Energy plc.
Committee memberships: Chairman of Group Health, Safety and Environment Committee and a member of the Nomination and Remuneration Committees.

Clinton Dines

Appointed to the Board: 2009
Nationality: Australian
Skills and experience: Clinton Dines has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital. In 1988, he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, became president, BHP Billiton China, a position from which he retired in 2009 prior to joining Kazakhmys. He brings exceptional knowledge of China combined with global resource industry and management experience. Age 54.
Other appointments: Executive chairman Asia of Caledonia (Private) Investments Pty Limited and a non-executive director of Zanaga Iron Ore Company Limited.
Committee memberships: Member of the Audit, and Group Health, Safety and Environment Committees.

Simon Heale

Appointed to the Board: 2007
Nationality: British
Skills and experience: Simon Heale has significant global marketing and business operations and management experience having been chief operating officer of Jardine Fleming Limited, deputy managing director of Cathay Pacific Airways and chief executive of The London Metal Exchange. He has also been a non-executive director and chairman of Panmure Gordon & Co plc. Age 58.
Other appointments: Non-executive director of The Morgan Crucible Company plc, Coats plc, Marex Spectron Group Limited and PZ Cussons plc. He is also a trustee and treasurer of Macmillan Cancer Support.
Committee memberships: Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Governance Framework – continued

Lord Renwick of Clifton, KCMG

Appointed to the Board: 2005
Nationality: British
Skills and experience: Lord Renwick has had a diplomatic career spanning over 30 years, including serving as British Ambassador to the United States and to South Africa. He was a non-executive director of BHP Billiton plc, SABMiller plc, British Airways plc, Liberty International plc, Fluor Corporation and Harmony Gold Mining Company Limited. Lord Renwick's diplomatic, financial and mining experience make him a valuable contributor to the Board. Age 74.
Other appointments: Deputy chairman of Fleming Family & Partners Limited and a non-executive director of Compagnie Financière Richemont SA and Bumi plc. He is also vice chairman, Investment Banking of J.P. Morgan Europe and vice chairman of J.P. Morgan Cazenove.
Committee memberships: Chairman of the Remuneration Committee and a member of the Nomination Committee.

Charles Watson

Appointed to the Board: 2011
Nationality: British
Skills and experience: Charles Watson has an extensive background in both operational management and major project delivery, having spent 29 years at Shell during which time he held a number of senior executive positions throughout the world, culminating in his appointment as executive vice president covering Russia and the CIS, including oversight of Shell's activities in Kazakhstan, chairman of Shell Russia and chairman of the board of directors for the Sakhalin Energy Investment Company. Age 57.
Committee memberships: Member of the Audit, and Group Health, Safety and Environment Committees.

Commitment

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

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

The attendance of Directors at scheduled meetings of the Board which they were eligible to attend and the number of meetings attended during 2011 is shown below:

Directors during the year	Number of scheduled Board meetings eligible to attend	Number of scheduled Board meetings attended
Vladimir Kim	6	5
Oleg Novachuk	6	6
David Munro[1]	3	3
Eduard Ogay[2]	4	3
Philip Aiken	6	6
Clinton Dines	6	6
Simon Heale	6	6
Peter Hickson[3]	3	2
Lord Renwick	6	5
Charles Watson[4]	2	2
Daulet Yergozhin	6	5

1 David Munro retired as a Director on 13 May 2011.
2 Eduard Ogay was appointed as a Director on 13 May 2011.
3 Peter Hickson retired as a Director on 13 May 2011.
4 Charles Watson was appointed as a Director on 24 August 2011.

Vladimir Kim, Eduard Ogay, Peter Hickson and Lord Renwick missed one Board meeting each due to a conflict in schedules and Daulet Yergozhin missed one Board meeting due to a conflict in schedules arising from his commitments as a minister in the Government of Kazakhstan. They provided any comments to the Chairman or Company Secretary on matters to be discussed in advance of those meetings they missed.

In addition to the six scheduled meetings of the Board during the year, two further meetings were arranged at short notice to deal with specific matters and it was not always possible for all Directors to attend such meetings. Furthermore, two meetings were held during the year which focused solely on a review of the Group's strategy.

Development

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

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

Where appropriate, additional training and updates on particular issues are arranged. For example, over the last 12 months, members of the Board have made visits to the Group's operations in Kazakhstan and have received specific briefings by management on the introduction of the UK Corporate Governance Code and the UK Bribery Act 2010. All Directors are provided with the opportunity, and encouraged to attend, for training to ensure they are kept up to date on relevant legal and financial developments or changes in best practice, and changing commercial and other risks. Typical training for Directors includes attendance at seminars, forums, conferences and working groups as well as receiving e-mail alerts from relevant bodies providing updates on various legal, regulatory and corporate governance matters.

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

Information and support

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

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

Performance evaluation

In line with the Company's policy and in compliance with the provisions of the UK Corporate Governance Code, a full Board performance evaluation process, facilitated by an external consultant, Lintstock Ltd, was undertaken in late 2011/early 2012, the previous externally facilitated Board performance evaluation having been performed in 2008. The process was carefully structured but pragmatic, tailored to bring about a genuine debate of issues that are relevant, aiming to assist in identifying any potential for improvement in the Company's processes. It entails the completion of detailed questionnaires on the performance of the Board, its committees and its executive and non-executive Directors by each Director (excluding Charles Watson who was appointed on 24 August 2011), which were completed in 2011, and will be followed by one-to-one interviews between the external consultant and each Director and the preparation by the external consultant of a composite written report. The results of the performance evaluation report will be presented and discussed at the May 2012 Board meeting and will be disclosed in next year's Annual Report and Accounts.

The performance evaluation process undertaken in early 2011 in respect of the calendar year 2010 concluded that the Board and its committees continue to operate effectively and each Director is contributing effectively and demonstrates commitment to his role, although there were certain areas identified for improvement in relation to a greater focus by the Board on risk oversight and strategy. The Board has taken steps during the year to address these areas identified for improvement by receiving more detailed, regular reports from the Audit Committee on the Group's key risks, in advance of the Board's annual review of internal control and risk management, and a greater focus on monitoring the strategic issues and the challenges facing the mining industry.

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

Re-election

New Directors appointed by the Board must submit themselves for election by shareholders at the Annual General Meeting following their appointment. Charles Watson having been appointed by the Board on 24 August 2011, will retire and submit himself for election at the forthcoming Annual General Meeting. The UK Corporate Governance Code requires that all Directors be subject to annual re-election by shareholders. The Board has decided to adopt this requirement as part of the Board's commitment to shareholder accountability. Accordingly, all other Directors will be submitted for re-election at the forthcoming Annual General Meeting.

Conflicts of interest

From 1 October 2008, the Companies Act 2006 introduced a new statutory duty requiring a director to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's Articles of Association include provisions giving the Directors authority to approve such situations and to allow conflicts of interest to be dealt with in a similar way to the position that existed prior to the coming into force of this legislation. There is no breach of duty if the relevant situation has been so authorised in advance.

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

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

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

UK Bribery Act 2010

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

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

In order to disseminate the Group Anti-Bribery and Corruption Compliance Programme across the Group, a training, monitoring and assurance programme has been developed. Owing to the size of the Group, the Group Anti-Bribery and Corruption Compliance Programme is being rolled out on a staggered basis with those areas of the business with the greatest bribery and corruption risk being implemented first. A bespoke face-to-face training programme has been initially rolled out to senior staff in the areas of greatest risk with new staff being provided with details of the Group Anti-Bribery and Corruption Compliance Programme as part of their induction. Furthermore, a number of articles are being placed in internal newsletters highlighting the new policies and procedures and an Anti-Bribery and Corruption portal has been established to provide all employees with a reference tool.

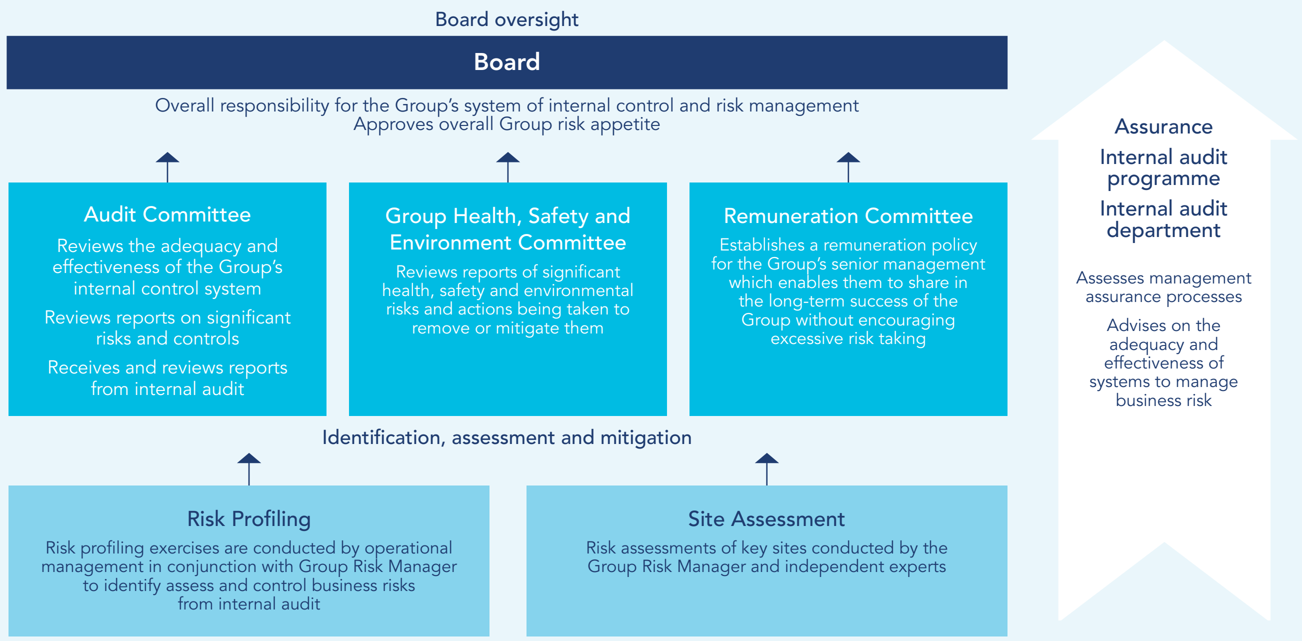
Accountability

Internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system is designed to identify, evaluate and manage the significant risks associated with the Group's achievement of its business objectives, with a view to safeguarding shareholders' investments and the Group's assets. This system is designed to meet the Company's particular needs and the risks to which it is exposed, and is designed to manage rather than eliminate risk. Because of the limitations inherent in any system of internal control, such a system can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board confirms that, throughout the year ended 31 December 2011 and up to the date of approval of this Annual Report and Accounts, there have been processes in place for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance (as amended by the Flint Review).

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

Risk governance structure



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

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

The Board, in conjunction with management, continues to review and further develop the internal control environment where appropriate. Details of initiatives in the area of financial risk management can be found in the Financial Review commencing on page 71, and initiatives in the area of health, safety and the environment can be found in the Corporate Responsibility Report commencing on page 76.

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

Governance Framework – continued

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

Internal audit's work is focused on areas of greatest risk to the Group and its mandate and programme of work is approved by the Audit Committee. Based on the approved audit plan, internal audit has undertaken a number of audits across the Group's operations and functions to facilitate improvement of the Group's internal controls and reports findings to relevant operational management. The Head of Internal Audit reports regularly to the Audit Committee and the chairman of the Audit Committee reviews the remuneration of the Head of Internal Audit.

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

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

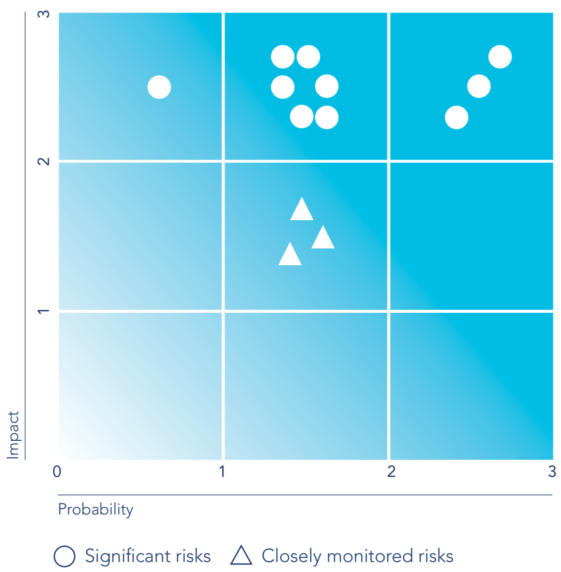
A review of the internal audit function was performed during the year by an external consultant which covered key areas related to the operation of the internal audit department including: (i) managing internal audit activities; (ii) quality assurance; (iii) engagement planning and performance; (iv) communicating results; and (v) monitoring progress of the implementation of recommendations. The review concluded that the internal audit function continued to operate effectively although there were certain areas identified for improvement in relation to the implementation of recommendations, follow up procedures, audit planning, internal audit responses, internal audit reporting and quality assurance. The internal audit function is currently in the process of implementing a number of actions, agreed by the Audit Committee, to address the areas identified for improvement.

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

The Group Risk Manager coordinates the risk assessment and identification activities, and facilitates the development of appropriate responses to identified risks. Details of the process for identifying and managing the Group's risks is set out on page 101 and further information of the risks identified with mitigating actions where relevant are set out in the Principal Risks section on pages 34 to 37.

Risk profile
Once the Group's significant risks have been identified, each risk is then assessed as to its probability of occurrence and impact on the Group. Each risk is then placed on to the Group risk map and regularly reviewed to ensure that its positioning continues to be an accurate representation as to its probability and impact on the Group. There are also other risks which have been identified by management but which are not considered as one of the Group's significant risks at the current time. These risks are also placed onto the Group risk map but are identified as risks being closely monitored by management. A graphic representation of the Group risk map is shown below.

How we profile our risk reporting



Relations with shareholders

Dialogue with shareholders

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

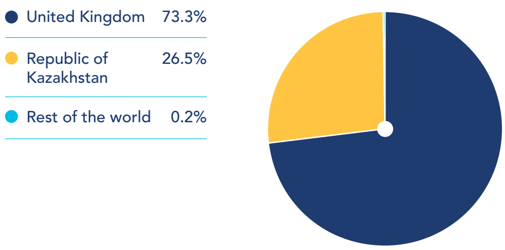
The Company has approved a communications policy which has been adopted throughout the Group. The executive Directors are available, through the Head of Corporate Communications, to discuss the concerns of major shareholders at any time during the year and the Chairman is available to discuss governance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

There is regular dialogue with key institutional shareholders and sell-side analysts to discuss strategy, financial performance and investment activities throughout the Group, who also from time to time visit the Group's operations. During 2011, executive Directors and senior management met with institutional investors in the United Kingdom, continental Europe, Canada, United States of America, China, Hong Kong and Singapore and attended several conferences in United Kingdom, Europe and North America providing a comprehensive dialogue with shareholders.

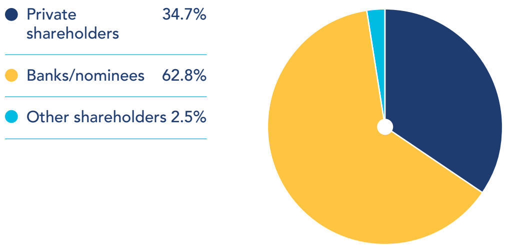
The Company issues quarterly production updates normally in January, April, July and October and interim management statements normally in April and October to the market. These, together with copies of institutional analyst presentations each half year, the Group's preliminary and half-yearly results and all announcements issued to the London Stock Exchange and the Hong Kong Stock Exchange (in English and in Chinese), are available on the Company's website (www.kazakhmys.com). Furthermore, the Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The Company now produces an annual Super Summary which is sent to all shareholders who have not requested hard copy documentation to advise them of the availability of the Annual Report and Accounts and Notice of Annual General Meeting on the Company's website.

The Shareholder Information section on pages 207 to 209 contains further details on electronic communications together with more general information of interest to shareholders which is also included on the Company's website. The Directors' responsibility statement for the preparation of the Annual Report and Accounts is set out on page 124.

Shareholder by region (% by number of shares held)



Shareholder by sector (% by number of holders)



General Meetings

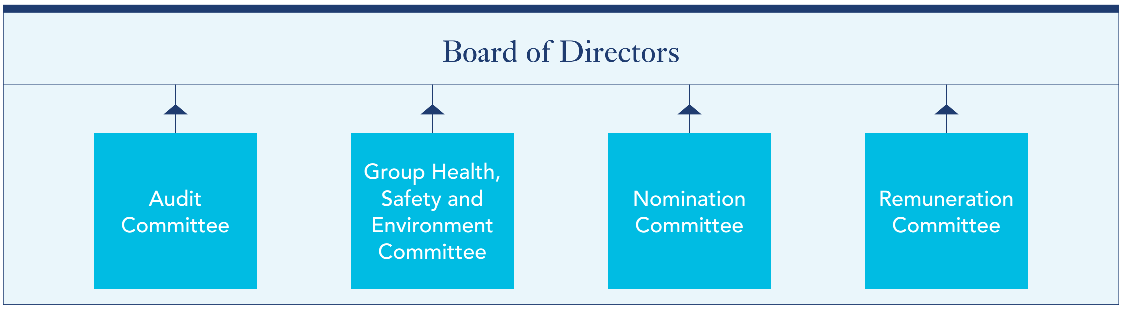
The Notice of Annual General Meeting is circulated to all shareholders at least 20 business days prior to such a meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting at which there is an opportunity for individual shareholders to question the Chairman and, through him, the chairmen of the principal Board committees. After the Annual General Meeting, shareholders can meet informally with the Directors. Furthermore, all shareholders are entitled to receive dividends, when declared, to appoint proxies to attend any general meeting of the Company and to exercise voting rights. None of the Company's shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders.

All members of the Board (excluding Peter Hickson and Eduard Ogay who were unable to attend due to conflicts in schedules) attended the 2011 Annual General Meeting. At the Annual General Meeting, the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders. All resolutions at the 2011 Annual General Meeting were voted by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the New Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.

Governance Framework – continued

Board committees

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



Board committee membership

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

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

C: Chairman of committee
M: Member of committee

Audit Committee

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

Simon Heale
Chairman, Audit Committee

Other members

Clinton Dines
Peter Hickson (to 13 May 2011)
Charles Watson (from 24 August 2011)

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

Governance

Simon Heale has recent and relevant financial experience; his biography is set out on page 93. The other members of the Committee, Clinton Dines and Charles Watson, have broad commercial experience and knowledge of international businesses which they bring to the Committee's deliberations. The Chief Executive, Chief Financial Officer, Company Secretary, Head of Internal Audit and the external auditor are normally invited to attend Committee meetings.

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

The Committee has decided to commence a formal, competitive tender process for the provision of external audit services. It is intended that the chosen external auditor will be in place in time for the review of the Group's half-yearly results due to be released in August 2012 and therefore also for the audit in respect of the year ended 31 December 2012. Ernst & Young LLP, the Group's current external auditor, will be considered for the role as part of the tender process.

Attendance at Audit Committee meetings

The attendance of members at scheduled meetings of the Audit Committee which they were eligible to attend, including two scheduled meetings which were convened to discuss one item of business only, being the financial disclosures in the Interim Management Statements, and the number of meetings attended during 2011 is shown below:

Members during the year	Number of scheduled Audit Committee meetings eligible to attend	Number of scheduled Audit Committee meetings attended
Simon Heale	7	7
Clinton Dines	7	7
Peter Hickson[1]	3	3
Charles Watson[2]	2	2

1 Peter Hickson retired as a member of the Committee on 13 May 2011.
2 Charles Watson was appointed as a member of the Committee on 24 August 2011.

In addition to the seven scheduled meetings of the Audit Committee during the year, one further meeting was arranged at short notice to deal with specific matters.

Role of the Audit Committee

Key roles and responsibilities of the Audit Committee include:

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

Activities in 2011

At its meetings in 2011, the Committee considered, amongst other matters, the following:

Financial reporting:

- reviewed annual and half-yearly results and interim management statements, including accounting policies, significant financial reporting estimates and judgements applied in preparing them and the transparency and clarity of the disclosures within them;
- reviewed the financial disclosures in the listing documents for the secondary listing on the Hong Kong Stock Exchange;
- received reports from management and the external auditor on accounting, financial reporting and taxation issues; and
- reviewed the basis for preparing the Group accounts on a going concern basis.

Internal control:

- received reports from management on the implementation of enhanced financial reporting procedures and controls;
- reviewed the design and effectiveness of the Group's system of internal control as set out on page 101 and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed and recommended to the Board amendments to the Group Treasury Policy; and
- reviewed the Group's processes for disclosing information to the external auditor and the statement concerning such disclosure in the Annual Report and Accounts.

Risk management:

- reviewed and challenged the Group's significant risks identified by management in the Group risk map, and reviewed the effectiveness of the Group risk management framework as described on page 102, and reports arising out of the risk management process;
- monitored the Group's significant insurance arrangements and reviewed the Group's insurance broking arrangements; and
- received a presentation on a risk management review of the Kazakhmys Power business.

Internal audit:

- reviewed the results of an external report of the performance and effectiveness of the internal audit function commissioned by the Committee in late 2010;
- approved the internal audit department's three-year strategic and annual operational plans and reviewed reports from the internal audit department relating to control issues; and reviewed the level of resources allocated to the internal audit department to ensure the annual operational plan could be delivered as part of the overall assessment of the effectiveness of the internal audit department.

External auditor:

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

Other matters:

- received reports from management on the establishment of a Group Anti-Bribery and Corruption Compliance Programme which includes updated Speak-Up arrangements by which staff may, in confidence, raise concerns about possible legal, regulatory or other improprieties in matters of financial reporting and other matters;
- received a presentation on the controls and assurance plan over geological reserves and resources;
- reviewed the methodology for producing the disclosure of the mining reserves and resources and other relevant disclosures in the Annual Report and Accounts;
- reviewed its terms of reference and the results of the performance evaluation of the Committee;
- reviewed the training requirements of the Committee members;
- received a presentation on the changes to the structure, resources and succession planning of the finance function;
- received a presentation by the external auditor on the economic, financial and legal developments in Kazakhstan; and
- received an update from management on the latest technical accounting and regulatory issues.

The Committee also receives reports on developments in financial reporting practices, legislative and regulatory changes and other relevant matters so as to assist it in fulfilling its responsibilities.

In light of the publication by the Financial Reporting Council (FRC) of a revised version of its Guidance on Audit Committees, the Committee's policy on the use of the external auditor for non-audit services was reviewed and amended to include statements of principle and revisions to the list of those non-audit services which may and may not be provided by the external auditor. The Committee's policy on the provision of non-audit services by the external auditor and their associates includes the identification of certain non-audit services which may or may not be provided and a process through which other non-audit services may be approved. The policy requires any new engagement with the external auditor for non-audit services in excess of £100,000 that may be provided by the external auditor to be approved in advance by the Chief Financial Officer and the Committee chairman or a sub-committee of any two members, with any non-audit services up to a limit of £100,000 being approved by the Chief Financial Officer.

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

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

Details of the amounts paid to the external auditor for audit and non-audit services for the year ended 31 December 2011 and information on the nature of non-audit fees appear in note 13 to the consolidated financial statements on page 163.

As part of the implementation of the Group Anti-Bribery and Corruption Compliance Programme, a revised formal Speak-Up policy has been introduced. The Speak-Up policy is designed to encourage employees to report alleged or actual malpractices or misconduct, to ensure that all allegations are thoroughly investigated and suitable action taken where necessary. The policy includes a number of procedures relating to reporting (including the provision of a dedicated confidential helpline operated by a third party in a number of languages) and investigation procedures.

The Group's internal audit function makes an important contribution to the Committee in discharging its responsibilities. The Committee reviewed and agreed the three year internal audit strategic plan and the internal audit function's performance and effectiveness was evaluated through an external review of the function, the quality of reports provided to the Committee, management responses to audit findings, the timeliness of the implementation of recommendations and interviews with management and members of the Committee. The level of skills and expertise of the members of the internal audit department, including staff numbers, were also reviewed.

Nomination Committee

The Nomination Committee has had a busy year, securing the appointment of two Directors. It has focused on ensuring Kazakhmys has the best Board to support its business going forward.

Vladimir Kim
Chairman, Nomination Committee

Other members
Philip Aiken
Simon Heale
Lord Renwick

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

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

Governance

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

Governance Framework – continued

Attendance at Nomination Committee Meetings

Members during the year	Number of scheduled Nomination Committee meetings eligible to attend	Number of scheduled Nomination Committee meetings attended
Vladimir Kim	2	2
Philip Aiken	2	2
Simon Heale	2	2
Lord Renwick	2	2

Role of the Nomination Committee

Key roles and responsibilities of the Nomination Committee include:

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

Activities in 2011

At its meetings in 2011, the Committee considered, amongst other matters, the following:

- reviewed the composition of the Board and its committees to ensure the appropriate mix of knowledge, skills and experience is present;
- recommended to the Board the appointment of Eduard Ogay as an executive Director and Charles Watson as an independent non-executive Director;
- under the retirement provisions in the Company’s Articles of Association, recommended to the Board the election of Eduard Ogay and the re-election of Vladimir Kim, Oleg Novachuk and Lord Renwick by shareholders at the 2011 Annual General Meeting having due regard to the performance and ability for each Director to continue to contribute to the Board and its committees;
- review of succession planning for non-executive Directors and certain senior managers;
- reviewed the recommendations arising from the Davies Report on the representation of women on plc boards;
- reviewed the time commitment required by non-executive Directors to fulfil their duties; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

During 2011, the Committee recommended the appointment of a new non-executive Director, Charles Watson, and a new executive Director, Eduard Ogay. As part of their review of non-executive Director succession planning and taking account of Peter Hickson’s decision to retire from the Board in 2011, a detailed job description was agreed by the Committee, having regard to the desired balance of skills and experience, independence and knowledge on the Board as a whole and with due regard for the benefits of diversity on the Board, including gender. It was agreed that any candidate should have experience of delivery of major projects, preferably in the CIS. Only after a rigorous interview process was a candidate recommended to the Board.

The Committee also gave their support to the Chief Executive’s proposal that Eduard Ogay be appointed as an executive Director of the Company. The Committee took account of the key role Eduard Ogay had played in developing Kazakhmys Corporation LLC, his extensive markets and management experience and the contribution he could make in helping the Company achieve its strategic objectives. The Committee also debated the impact the appointment may have on the dynamics of the Board and the balance of executive and non-executive Directors. Noting that the Board had previously operated with an additional executive Director, it was satisfied that the current openness and candour of Board discussions would be sustained.

Group Health, Safety and Environment Committee

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

Philip Aiken
Chairman, Group Health, Safety and Environment Committee

Other members
Clinton Dines
Peter Hickson (to 13 May 2011)
David Munro (to 16 December 2011)
Charles Watson (from 16 November 2011)

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

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

Attendance at Group Health, Safety and Environment Committee meetings

The attendance of members at scheduled meetings of the Group Health, Safety and Environment Committee which they were eligible to attend and the number of meetings attended during 2011 is shown below:

Members during the year	Number of scheduled Group Health, Safety and Environment Committee meetings eligible to attend	Number of scheduled Group Health, Safety and Environment Committee meetings attended
Philip Aiken	2	2
Clinton Dines	2	2
Peter Hickson[1]	1	0
David Munro[2]	2	2
Charles Watson[3]	–	–

[1] Peter Hickson retired as a member of the Committee on 13 May 2011. He missed one Committee meeting due to a conflict in schedules.
[2] David Munro retired as a member of the Committee on 16 December 2011.
[3] Charles Watson was appointed as a member of the Committee on 16 November 2011.

Role of the Group Health, Safety and Environment Committee

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

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

Activities in 2011

At its meetings in 2011, the Committee considered, amongst other matters, the following:

- reviewed and evaluated fatal and serious incident reports through the Fatal and Serious Incident Review Panel;
- monitored and evaluated a number of key safety and environmental initiatives;
- reviewed and evaluated reports on the implementation and effectiveness of a number of health, safety and environmental policies and procedures;
- monitored and evaluated performance against the Group's five-year health and safety management plan;
- monitored and evaluated the safety training activities of the Group, including those programmes developed in conjunction with DuPont Sustainable Solutions;
- reviewed the Group's level of compliance with Kazakhstan and EBRD environmental standards and regulations, and penalties being incurred by the Group;
- reviewed the adequacy of resources available to the health and safety department;
- reviewed and evaluated progress in embedding a process-safety culture; and
- reviewed its terms of reference and the results of the performance evaluation of the Committee.

Further details of the Committee's activities can be found in the Corporate Responsibility Report commencing on page 76.

Remuneration Report

Remuneration is a high profile issue. The Committee welcomes the accountability and transparency which shareholders and regulators expect and which the Committee endorses.

Dear Shareholder,
On behalf of the Board, I am pleased to present the annual Directors' Remuneration Report summarising Kazakhmys' remuneration policy and providing information on the Company's remuneration approach and arrangements for executive Directors and non-executive Directors for the year ended 31 December 2011.

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

The Company's key remuneration policies were reviewed last year against new guidelines, market best practice and a review of the risk environment surrounding the Company's remuneration arrangements.

The Group continues to focus on optimising its existing assets, delivering its growth projects and taking advantage of opportunities to diversify within the Central Asian region, so that it remains globally competitive.

The Committee believes that achievement against these objectives will deliver strong long-term financial performance and shareholder value on a sustainable basis. Therefore, in determining the levels of executive reward, the Committee continues to place considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received, and the achievement of Kazakhmys' strategic and business objectives. The annual bonus plan performance targets are therefore based on four equally weighted measures with a clear alignment to the Group's KPIs and strategic priorities. As safety is a key priority of the Group, awards are also subject to a safety override ensuring that payouts will be scaled back in the absence of improvement in the Group's safety performance.

This year has seen a continuation of volatile market conditions. Against this challenging environment, the Company has succeeded in meeting a number of its performance targets. However, taking into account the prevailing economic and market conditions and despite robust operational and financial performance in 2011, the Committee considers it prudent not to increase executive Directors' salaries in 2012. Annual bonus payouts for executive Directors for 2011 and payable in March 2012 ranged from 43% to 50% of maximum, having been scaled back as a result of the Group's continuing safety challenges. The Long Term Incentive Plan awards (none of which were held by executive Directors) which were due to vest in 2011 lapsed having failed to meet the required three year total shareholder return performance target.

The Committee takes seriously the issue of balancing risk and reward, an area that is a key focus for Kazakhmys' investors, stakeholders and regulators. Following a detailed assessment of the risk environment surrounding the Company's remuneration arrangements for executive Directors and certain senior managers undertaken in 2010, the Committee agreed in 2011 that in order to more effectively manage risk, a 'clawback' mechanism should be introduced for annual bonuses to take account of any serious problems that may arise in the years after awards have been made. The details of how this would operate are set out later in this report.

The Committee has considered the impact of the changes to executive remuneration proposed by the Department for Business, Innovation and Skills following its consultation paper in 2011 and will consider these further during the year once the proposals have been finalised.

The Directors' Remuneration Report has been prepared by the Committee and approved by the Board as a whole. A resolution to vote for this report will be put to the Annual General Meeting on 11 May 2012 and I hope that you will support it.

Lord Renwick of Clifton, KCMG
Chairman, Remuneration Committee

Role of the Remuneration Committee

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

The Committee's full terms of reference are available on the Company's website. The terms of reference, which are reviewed annually, were revised in November 2010 in light of corporate governance developments and best practice. The Committee's principal responsibilities are summarised below:

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

Governance

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

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

This report has been prepared in accordance with the reporting requirements of the Companies Act 2006 and Schedule 8 of The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. It also describes the Group's compliance with the UK Corporate Governance Code in relation to remuneration. The Committee takes significant account of guidelines issued by the ABI, RREV and other shareholder bodies when setting the remuneration framework. It also seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular.

Attendance at Remuneration Committee meetings

The Committee met four times in 2011, with each member attending as follows:

Members	Committee member since	Attendance at full meetings during 2011
Lord Renwick	1 December 2005	4/4
Philip Aiken	1 November 2006	4/4
Simon Heale	1 January 2007	4/4

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

Committee activities

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

- the introduction of a clawback mechanism for the annual bonus plan to take account of any serious problems that may come to light in the years after awards have been made;
- consideration of current trends in remuneration practice and recent developments in the corporate governance environment relating to remuneration;
- annual review of executive Directors' and the Chief Financial Officer's base salaries;
- performing an oversight role on the remuneration of certain senior managers. The Committee reviews the salary, bonus and share awards for senior managers immediately below Board level;

- assessment of the level of achievement against financial and non-financial objectives under the annual bonus plan, and determination of the levels of payout;
- review of LTIP performance condition in April and November, including ratification that awards due to vest in 2011 had failed to meet the three-year performance target and lapsed;
- determining awards and performance condition for new awards under the LTIP;
- determining awards under the Deferred Share Bonus Plan;
- approval of the grant of awards under the Company's UK and International Save As You Earn;
- approval of the leaving arrangements of David Munro and the terms of his subsequent part-time role with the Company;
- approval of the 2010 Directors' Remuneration Report and review of the final outcome of AGM voting on the report;
- review of the Committee's performance during the period; and
- review of the Committee's terms of reference.

Priorities for 2012

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

- supporting the Group's strategy and business objectives;
- ensuring compliance with challenging regulatory requirements; and
- developing competitive reward structures whilst maintaining a prudent approach to cost and the risk to the business.

External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. During 2011, the Committee received advice on executive compensation, performance-related pay schemes and equity-based incentive schemes from NBS, an Aon group company. NBS also provides advice to the Company on remuneration matters for senior employees including benchmarking of remuneration and equity-based incentives. Other than providing insurance for the shipping of some copper and silver products to third parties, no other companies within Aon Corporation, of which NBS is a part, provide other services to the Company. The terms of engagement between the Committee and NBS are available on request.

Remuneration policy

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

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

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

In constructing and reviewing remuneration packages, the emphasis is on rewarding executive Directors competitively for their contribution to the Company's performance and for enhancing value to shareholders, taking into account market comparisons, the competitive pressures in the mining sector, internal relativities and sound risk management practices. External comparisons, including assessments of the relevant senior executive remuneration market, look at comparable roles in similar organisations in terms of operations and market capitalisation. The Committee takes a pragmatic approach toward benchmarking and aims to set reward opportunity for executive Directors and certain senior managers within the market competitive range, but with a balanced overall positioning.

The strategy for executive Director remuneration, in general terms, is to provide a balanced package around the relevant mid-market level for comparable mining companies and other companies of a similar size to Kazakhmys in the FTSE 100, with a high proportion of total remuneration being awarded through performance-related elements. The annual bonus plan aims to reward the delivery of short-term financial and business performance goals with commensurate levels of remuneration. The LTIP aims to reward long-term sustained performance and create alignment with the delivery of above market returns to shareholders through the delivery of equity and a relative total shareholder return performance target. Under both sets of plans, if the demanding targets are achieved, market competitive levels of reward may be earned. All incentives are capped in order that inappropriate business risk-taking is neither encouraged nor rewarded. Remuneration arrangements and performance targets are reviewed on a regular basis to achieve these objectives.

When designing remuneration structures and setting performance targets the Committee is mindful of environmental, social and governance (ESG) matters. In particular, it will consult with the Group Health, Safety and Environment Committee to ensure effective systems are in place to mitigate against any health, safety and environmental risks in remuneration incentives. The Committee monitors progress and achievement against ESG key performance indicators which, in part, determine the operational performance component of the annual bonus of the executive Directors and certain senior managers.

Following an extensive review of the Company's key remuneration policies and the risk environment surrounding remuneration arrangements in 2010/11, the Committee intends to continue with the general framework of the remuneration policy for 2012 and subsequent years, and will continue to consult on material changes with major institutional shareholders.

Executive Director remuneration in 2011

The Committee determines the remuneration packages for the executive Directors and the Chief Financial Officer. The packages are designed to attract and retain high quality executives, induce loyalty and motivate them to achieve a high level of long-term corporate performance in line with the best interests of shareholders, whilst avoiding excessive risk taking and short-term measures. The principal elements of remuneration for executive Directors in 2011 were:

- base salary;
- benefits in kind;
- an annual bonus opportunity; and
- Long Term Incentive Plan awards for Oleg Novachuk and Eduard Ogay.

Elements of remuneration for 2011

Element	Purpose	Methodology
Base Salary	To attract and maintain high calibre executives reflecting market median levels based on role and executive's skills and experiences	Pay around the mid-market level compared to companies of a similar size in the FTSE 100, with particular regard to other mining companies Company and individual performance Economic and market conditions Remuneration levels of Group employees
Annual bonus plan	Incentivise the delivery of annual objectives consistent with the Group's strategy, without encouraging short-term measures or excessive risk taking	Payments determined on the basis of four discrete elements: • Operational performance • Financial performance • Strategic development • Shareholder return Payments scaled back in the absence of an improvement in the Company's safety performance Maximum bonus potential of 200% of salary for Oleg Novachuk and 120% of salary for Vladimir Kim and Eduard Ogay for the achievement of stretching performance objectives Target bonus of 50% of maximum bonus potential Clawback facility to take account of material and exceptional adverse circumstances which may arise after the payment of the bonus which make the payment of that bonus unwarranted
LTIP	Incentivise long-term value creation and alignment with shareholder interests	Annual awards of nil cost options of up to normally 200% of salary Each award split into two sub-awards, each of which is subject to a relative TSR performance condition over a separate three year period – resulting in a combined 41 month performance period. The two conditions are measured independently Awards vest in full for upper quartile performance. 30% of an award vests for median performance. No awards vest for below median performance
Benefits	Provide market competitive benefits	Private medical insurance Car and driver All employee share schemes

Base salary and benefits

Base salaries are generally set around the mid-market level for each role compared to companies of a similar size in the FTSE 100, with particular regard to other mining companies, and take account of the level of experience, group and individual performance and the external market. In setting base salaries the Committee also takes into account the general economic environment and salary increases applying across the rest of the Group. *Base salaries paid to executive Directors are adjusted to take account of the absence of any pension provision.* Information on the market for comparable management positions is supplied by NBS so that the Committee can form an independent view as to where to position the various elements of the remuneration package relative to comparable companies.

For 2011, Vladimir Kim and Oleg Novachuk received a 3.5% increase in their salaries with effect from 1 July 2011 to reflect their contribution to the performance of the Group in 2010/11 and maintain the competitiveness of their packages.

In light of current economic and market conditions, and the emphasis on salary restraint from shareholders, no salary increases are being made in 2012 to executive Directors. The average increase in base salaries of the Group's workforce for 2012 will be approximately 25%.

The base salaries for the executive Directors for 2010, 2011 and 2012 are shown in the table below.

Executive Directors' base salaries

	2010 £000	2011 £000	2012 £000
Vladimir Kim	1,026[1]	1,062[2]	1,062
Oleg Novachuk	827[1]	856[2]	856
Eduard Ogay[3]	–	314	494

1 With effect from 1 July 2010.
2 With effect from 1 July 2011.
3 Appointed on 13 May 2011.

In line with competitive practice, executive Directors are entitled to receive additional benefits including medical insurance and use of a car and driver. The value of the benefits for each executive Director is shown within the executive Directors' total emoluments table on page 115.

Annual bonus plan

The annual bonus plan is reviewed annually and is designed to drive profitability and individual performance. The maximum bonus potential is 200% of base salary for Oleg Novachuk and 120% of base salary for Vladimir Kim and Eduard Ogay. The proportion of bonus payable for on-target performance is 50% of the maximum for all executive Directors (that is 100% for Oleg Novachuk, and 60% for Vladimir Kim and Eduard Ogay).

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

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

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

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

For 2011, operational performance and strategic development of key projects were in line with plan, financial performance was good and share price performance was disappointing, affected by the disruption in the financial markets and short-term copper price volatility. The Group's safety performance improved compared to the prior year, but requires a continuing sustained effort to further improve it, resulting in bonuses being scaled back. The overall level of performance achieved resulted in annual bonus awards to Vladimir Kim, Oleg Novachuk and Eduard Ogay of 60%, 85% and 55% of base salary, respectively. The actual bonus payments received by them are shown in the table on page 115.

Following a detailed assessment of the risk environment surrounding the Company's remuneration arrangements for executive Directors and certain senior managers undertaken in 2010, the Committee agreed in 2011 that in order to more effectively manage risk, a 'clawback' mechanism should be introduced for annual bonuses to take account of any serious problems that the Company may become aware of in the years after awards have been made. Under this mechanism, the Committee has discretion in exceptional circumstances to determine that where there has been continuity of executive responsibility (between initiation of a serious adverse event and its emergence as a problem), the serious adverse event should be taken into account in assessing annual bonuses in the year the problem is identified, and, where appropriate, determining that a deferred share award will not vest, will only partially vest, or will be subject to a delayed vesting. Such circumstances may include a material restatement of the Group's financial statements, the discovery of endemic problems in financial or operational reporting, or where as a result of financial and operational losses a material breach of regulatory guidelines has occurred or is likely to occur.

Executive Directors' total emoluments

	Vladimir Kim[1]		Oleg Novachuk		Eduard Ogay[2]		David Munro[3]	
	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000
Salary	1,001	1,044	807	842	–	314	743	278
Benefits	34	98	36	96	–	–	55	14
Annual performance bonus	701	626	565	715	–	272	1,039	–
Total	1,736	1,768	1,408	1,653	–	586	1,837	292

1 Vladimir Kim received an aggregate salary of £1,044,000 in 2011. Of this salary, £640,000 was paid by Kazakhmys Corporation LLC and the balance was paid by the Company. An adjustment is made each year to ensure that his aggregate salary for the year equates to his salary denominated in UK pounds sterling as a result of exchange rate differences.
2 Eduard Ogay was appointed a Director on 13 May 2011.
3 David Munro stood down from the Board on 13 May 2011. In order for the Company to be able to continue to rely on his invaluable input, he then entered into a new service agreement with the Company and was employed as a part-time executive. The new service agreement was terminated on 16 December 2011 and replaced with a consultancy agreement with the Company commencing on 1 January 2012. The salary paid to him in 2011 as a part-time executive was £213,000, which was in addition to his salary as an executive Director of £278,000. There were no other payments made to former Directors during 2011.

Long Term Incentive Plan

The LTIP is a discretionary long-term incentive plan and provides for the grant of nil cost options to executive Directors and selected senior executives. The Committee reviews the quantum of awards made each year to ensure that it is in line with the market. Whilst the maximum annual award is 250% of salary, it is the Committee's policy to only grant awards of 200% of salary to Oleg Novachuk and Eduard Ogay, with lower award levels being applied to other senior executives. However, when making awards, it will consider wider factors such as Company performance in determining whether to grant at this level. No LTIP awards are made to the Chairman.

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

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

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

For awards granted in 2011 onwards the performance period for the sub-awards will be:

- sub-award 1: 1 January 2011 to 31 December 2013; and
- sub-award 2: 1 June 2011 to 31 May 2014.

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

TSR performance periods

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

Sub-award 1: 3 year vesting period

Sub-award 2: 3 year vesting period

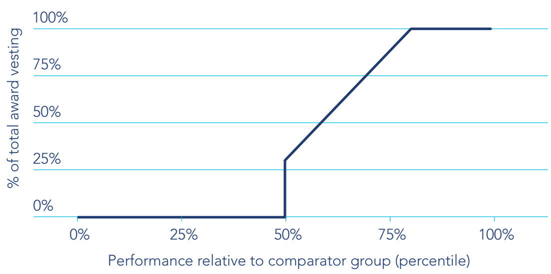
41 months

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

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

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

TSR Performance Vesting Schedule



The composition of the TSR comparator group is reviewed annually by the Committee. The comparator group applicable for awards granted in 2011 comprised:

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

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

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

In 2011, the LTIP awards (none of which were held by executive Directors) which were due to vest in April lapsed on failing to achieve the required TSR target.

Executive share option plan

The ESOP was approved by the Board in March 2010 and approved by shareholders in May 2010. The ESOP is an HMRC approved discretionary company share option plan that provides for the grant of market value options up to a value of £30,000 to executive Directors and certain selected UK-based senior executives. Options will normally vest three years from the date of grant, subject to the satisfaction of a performance condition and the participant being a Director or employee of Kazakhmys at that time.

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

No options were granted to executive Directors under the ESOP in 2011.

All employee share schemes

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

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

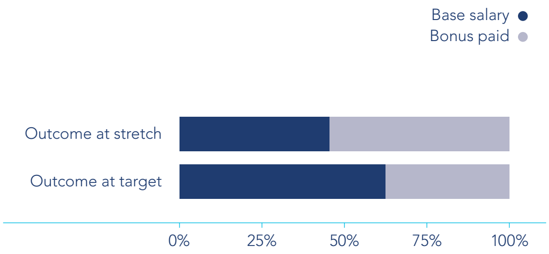
Pensions

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

Expected value of future remuneration package

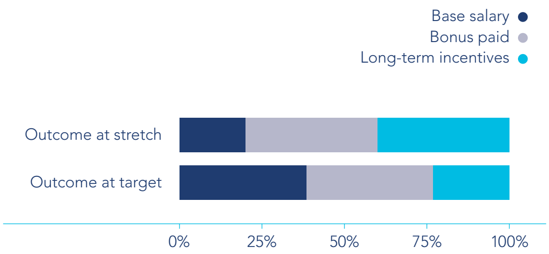
The following charts show the total remuneration package for Vladimir Kim, Oleg Novachuk and Eduard Ogay split between pay at risk and fixed pay for on-target and maximum performance.

Composition of Pay: Vladimir Kim – Executive Chairman



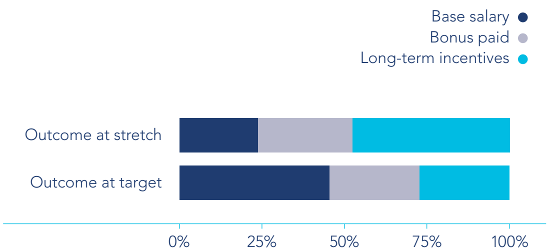
Based on 2012 policy.

Composition of Pay: Oleg Novachuk – Chief Executive



Based on 2012 policy; does not take account of any share price growth.

Composition of Pay: Eduard Ogay – Executive Director



Based on 2012 policy; does not take account of any share price growth.

Dilution of share capital

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

Employee Benefit Trust

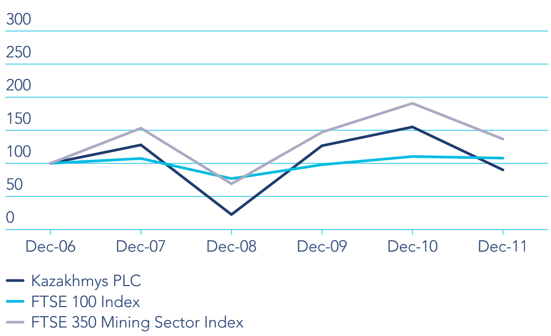
The Kazakhmys Employee Benefit Trust has been established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise of awards under the Group's share-based incentive plans. The trustees of the Kazakhmys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

As at 31 December 2011, 848,309 shares were held by the Employee Benefit Trust to hedge outstanding awards of 1,103,180. This means that the trust holds 77% of outstanding awards.

Performance graph

The graph below shows the value, at 31 December 2011, of £100 invested in Kazakhmys PLC shares on 1 January 2007 compared with an equivalent investment in the FTSE 100 Index and FTSE 350 Mining Sector Index. These indices were chosen as they are broad-based indices of which the Company is a member and are widely recognised performance comparisons for large UK mining companies.

Total Shareholder Return



Since its listing in October 2005, the Company has outperformed the FTSE 100 Index by over 45% and is in line with the FTSE 350 Mining Sector Index.

Remuneration for other senior managers

The remuneration for senior managers below Board level is broadly consistent with that followed at executive Director level. To encourage share ownership on the part of the most senior managers below Board level (including Matthew Hird, Chief Financial Officer, and Sergei Diachenko, Chief Operating Officer) they are eligible to receive a maximum bonus potential of up to 150% of salary with an on-target bonus potential of 75% of salary, one-third of which is deferred and invested in the Company's shares. Provided they remain in employment, the shares will be released after two years.

The salaries for the year ended 31 December 2011 of those senior managers immediately below the level of the Board were as shown in the table below:

Salary range	Number of senior managers
£500,000 – £599,999	1
£400,000 – £499,999	3
£300,000 – £399,999	–
£200,000 – £299,999	1

Includes salary of Matthew Hird, Chief Financial Officer.

Chief Financial Officer's remuneration	Base salary £000	Annual bonus £000	Total 2011 £000
Matthew Hird	451	338	789

Basic salary increased by 3.0% to £464,000 from 1 January 2012.

Executive Director changes

David Munro stepped down from the Board with effect from 13 May 2011. He then entered into a new service agreement with the Company and was employed as a part-time executive. The new service agreement was terminated on 16 December 2011 and replaced with a consultancy agreement with the Company commencing on 1 January 2012.

Eduard Ogay was appointed an executive Director on 13 May 2011. Details of his service agreement and remuneration are set out in this report.

Directors' Remuneration Report – continued

Service agreements

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

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

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

Policy on external appointments

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

Non-executive Directors

Non-executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment provides for a one month notice period. Non-executive Directors are normally appointed for two consecutive three-year terms, with any third term of three years being subject to rigorous review and taking into account the need progressively to refresh the Board. For each non-executive Director who served during 2011, the effective date of their letter of appointment is shown in the table below:

Name	Date of appointment
Philip Aiken	1 November 2006
Clinton Dines	1 October 2009
Simon Heale	1 January 2007
Peter Hickson[1]	5 March 2009
Lord Renwick of Clifton, KCMG	1 December 2005
Charles Watson	24 August 2011
Daulet Yergozhin	19 November 2008

1 Retired on 13 May 2011.

Non-executive Director fees

Fees for the non-executive Directors are determined by the Board as a whole, upon the recommendation of the executive Directors, with regard to market practice and to reflect individual time commitments and responsibilities, membership of Board Committees and other responsibilities, subject to the limits contained in the Company's Articles of Association. Non-executive Directors are not permitted to participate in any of the Company's share schemes or incentive plans, nor do they accrue pension benefits from the Company for their non-executive Director services.

The Board normally reviews non-executive Directors' fees every two years, with any changes normally taking effect from 1 January. Following a review in 2011, the Board agreed that the non-executive Director base fee should remain unchanged, but fees paid to the Senior Independent Director and the chairmen and members of the Audit and HSE Committee should be increased to reflect the increased focus within the Company on compliance and risk and the additional time commitments in London and Kazakhstan.

The fee structure during 2011 and from 1 January 2012 is shown below.

	2011 fee £000	2012 fee £000
Base fee	84	84
Additional fees:		
Senior Independent Director	12	18
Chairmen of the Audit and Group HSE Committees	12	18
Chairman of the Remuneration Committee	12	12
Member of the Group HSE Committee	6	12
Member of the Audit Committee	6	9
Member of the Remuneration Committee	6	6

Directors' interests in the Long Term Incentive Plan

Director	Date of award	Number of shares conditionally awarded	Date of vesting	Market price at date of grant	Awards vesting	Awards lapsing	Number of shares under award as at 31 December 2011
Oleg Novachuk	17 May 2010[1]	116,532	17 May 2013	1,201p	–	–	116,532
	6 April 2011	117,006	1 June 2014	1,468p	–	–	117,006
Eduard Ogay	26 November 2009	74,240	26 November 2012	1,213p	–	–	74,240
	6 April 2011	73,623	1 June 2014	1,468p	–	–	73,623

[1] In line with the policy approved by shareholders at the 2010 Annual General Meeting, the award is subject to a performance condition (and a performance period) as at 26 November 2009.

The table shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends on unvested shares.

Fees paid to non-executive Directors during the year ended 31 December 2011 are set out below:

Non-executive Directors' fees	Total fees 2010 £000	Total fees 2011 £000
Philip Aiken	108	108
Clinton Dines	92	96
Simon Heale	96	96
Peter Hickson[1]	96	36
Lord Renwick of Clifton, KCMG	96	96
Charles Watson[2]	–	33
Daulet Yergozhin[3]	84	84

[1] Retired on 13 May 2011.
[2] Appointed on 24 August 2011.
[3] As a minister of the Government of Kazakhstan, Daulet Yergozhin is not permitted to receive fees personally and his fees were paid to SABY charitable trust, a children's charity based in Kazakhstan.

Directors' interests in ordinary shares

The beneficial interests of the Directors and their connected persons who held office at 31 December 2011 in the Company's ordinary shares as at that date and 1 January 2011 are shown in table below.

Directors' interests in ordinary shares	Ordinary shares at 1 January 2011	Ordinary shares at 31 December 2011
Philip Aiken	4,000	4,000
Simon Heale	5,000	5,000
Vladimir Kim	149,306,795	149,306,795
Oleg Novachuk	34,923,423	34,923,423
Eduard Ogay	3,834,427[1]	3,834,427
Lord Renwick of Clifton, KCMG	4,000	4,000

[1] As at date of appointment: 13 May 2011.
[2] No changes in Directors' interests occurred in the period 1 January 2012 to 26 March 2012.
[3] The market value of the Company's shares in 2011 was in the range of 730p to 1,671p.

Auditable information

The Group's auditors, Ernst & Young LLP, have audited the information contained in the tables headed Executive Directors' base salaries, Executive Directors' total emoluments, Remuneration for other senior managers, Directors' interests in the Long Term Incentive Plan, Non-executive Directors' fees and Directors' interests in ordinary shares.

On behalf of the Board

Lord Renwick
Chairman, Remuneration Committee
26 March 2012

Other Statutory Information

Principal activities

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

The business review (see pages 2 to 89) provides a comprehensive review of the development, performance and likely future developments of Kazakhmys' operations for the year ended 31 December 2011. The information set out in the business review is incorporated by reference into the Directors' Report and is deemed to form part of the Directors' Report.

A list of main subsidiary undertakings and the joint venture, and their principal activity, is given in note 48 on page 194.

Directors

The Directors of the Company who served during the year were as shown on pages 92 and 93, together with Peter Hickson and David Munro who retired at the conclusion of Company's Annual General Meeting held on 13 May 2011. Details of Directors' interests in shares can be found in the Directors' Remuneration Report on page 119.

All Directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting after their appointment, if appointed by the Board. Charles Watson, having been appointed by the Board on 24 August 2011, will retire at the forthcoming Annual General Meeting and will be proposed for election. In accordance with the UK Corporate Governance Code, all other Directors will retire and submit themselves for re-election at the Company's forthcoming Annual General Meeting. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report.

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

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

Directors' indemnity and insurance

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

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

Dividend

The Board recommends the payment of a final dividend of 20.0 US cents per ordinary share (2010: 16.0 US cents). If approved, the dividend will be paid on 15 May 2012 to shareholders on the UK register of members at the close of business in the UK on 20 April 2012, and to shareholders on the Hong Kong register of members at the opening of business in Hong Kong on 20 April 2012. An interim dividend of 8.0 US cents per share (2010: 6.0 US cents) was paid on 4 October 2011.

The Company declares dividends in US dollars. For those shareholders who hold their shares on the UK register the default currency for receipt of dividends is US dollars, although they can elect to receive their dividends in UK pounds sterling by completing a currency election form available from the Company's UK registrar.

For those shareholders who hold their shares on the Hong Kong register the default currency for receipt of dividends is Hong Kong dollars, although they can elect to receive their dividends in US dollars by completing a currency election form available from the Company's Hong Kong registrar.

Annual General Meeting

The Company's Annual General Meeting will be held at 12.15pm on Friday 11 May 2012 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. Details of the meeting venue and the resolutions to be proposed together with explanatory notes, are set out in a separate Notice of Meeting which accompanies this Annual Report and Accounts.

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

Share capital

At 31 December 2011, the Company's issued share capital was 535,417,961 ordinary shares of 20 pence, each credited as fully paid. As at the date of this Directors' Report the Company holds 7,732,503 ordinary shares in treasury and the issued share capital of the Company which carries voting rights of one vote per share comprises 527,685,458 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 28 on page 174.

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

Purchase of own shares

The Company was authorised by shareholders at the 2011 Annual General Meeting to purchase up to 53,524,033 of its own shares in the market, representing approximately 10% of the Company's issued share capital at that time. After taking into account the profitability of the business and underlying growth in earnings of the Group, together with its cash flows and growth requirements, the Company announced on 25 August 2011 its intention to commence a share buy-back programme to purchase up to $250 million of its own shares. The authority to make market purchases of the Company's shares will expire at the conclusion of the forthcoming Annual General Meeting.

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

The Company commenced its share buy-back programme on 27 September 2011. During the year ended 31 December 2011, 5,559,710 ordinary shares of 20 pence each of the Company (representing 1.04% of the ordinary shares in issue on 1 January 2012) were purchased and held as treasury shares. These shares were bought back at an average price of 883 pence for an aggregate consideration of $78 million.

Whilst the Board will seek shareholders' approval to renew the authority to make market purchases of the Company's shares at the forthcoming Annual General Meeting, no waiver of Rule 9 of the Takeover Code will be sought from the Panel and subsequently no independent shareholders' approval in respect thereof will be sought at the forthcoming Annual General Meeting. It is currently anticipated that if the Board decides to buy-back the Company's shares either the Concert Party comprising Messrs Kim, Novachuk and Ogay will participate pro rata to its interests in the voting rights of the Company or a waiver from Rule 9 of the Takeover Code will be sought from the Panel subject to independent shareholder approval.

Major shareholdings

As at 26 March 2012, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares of 20 pence each held	Percentage of total voting rights held as at 26 March 2012
Cuprum Holding Limited[1]	135,944,325	25.7%
The State Property & Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan	80,286,050	15.2%
Joint Stock Company National Welfare Fund "Samruk-Kazyna"	58,876,793	11.1%
Harper Finance Limited[2]	29,706,901	5.6%

[1] Vladimir Kim holds a 100% interest in Cuprum Holding Limited.
[2] Oleg Novachuk holds a 100% interest in Harper Finance Limited.

Relationship agreement

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

Political and charitable donations

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year. The Group made charitable donations of $7.0 million during the year (2010: $6.4 million). Further details of payments for charitable and community purposes made during the year are given on pages 87 to 89.

Suppliers

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

The average creditor payment period for the year ended 31 December 2011 for the Company was 13.3 days (2010: 14.1 days).

Market value of land and buildings

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

Other Statutory Information – continued

Policy on derivatives and financial instruments

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign exchange, counterparty credit, commodity price, liquidity and interest rate risks can be found in note 36 commencing on page 181.

Legal proceedings

Neither the Company nor any of its subsidiaries is a defendant in any proceedings which the Directors believe will have a material effect on either the Company's financial position or profitability. Commitments and contingencies are disclosed in note 37 commencing on page 187.

Significant agreements – change of control

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

The terms of a $2.1 billion pre-export finance debt facility (the Facility) dated 29 February 2008 between the Company and the financial institutions named in the Facility provide that if any person (excluding Vladimir Kim or Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the Facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the Facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the Facility. If no alternative basis has been agreed during such period then the lenders may cancel the commitments of the lenders to lend the Facility and declare all outstanding amounts due and payable.

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

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

Going concern

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

Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable English law concerning companies (the Companies Act 2006). This summary is qualified in its entirety by reference to the Company's Articles of Association and the Companies Act 2006.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares respectively.

Rights attaching to shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association. The Articles of Association may be changed with the agreement of shareholders. A shareholder whose name appears on the register can choose whether his shares are evidenced by share certificates or held in electronic form in CREST (the electronic settlement system in the UK).

Voting rights

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

At any general meeting a resolution put to a vote of the meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is duly demanded. Subject to the provisions of Companies Acts, a poll may be demanded by the chairman of the meeting or by at least five members present in person or by proxy and entitled to vote at the meeting or a member or members present in person or by proxy representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting or a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right. As a result of changes introduced by the Companies Act 2006 to allow multiple proxies appointed by a single member to vote on a show of hands, resulting in the potential for a vote on a show of hands to be unrepresentative of the wishes of the meeting of the Company, all substantive resolutions at general meetings will normally be put to a poll vote. Any form of proxy sent by the Company to shareholders in relation to any general meeting must be received whether in written form or electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board. The Board can declare and pay interim dividends. The Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) of the amounts and on the dates and for the periods it decides provided the distributable profits of the Company justify such payment. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividends as well as on shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears.

If a dividend has not been claimed for 12 years after the date such dividend became due for payment, it may be invested or otherwise made use of by the Board for the benefit of the Company.

Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid (or renunciation of a renounceable letter of allotment), provided that refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer unless (i) it is in respect of only one class of shares, (ii) it is in favour of a single transferee or not more than four joint transferees, (iii) the instrument of transfer is lodged, duly stamped (if so required) and delivered for registration to the office or such other place as the Board may determine accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing to make the transfer.

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

The Board may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register to shareholders. The Board cannot suspend the registration of transfers of any uncertificated shares without gaining consent from CREST.

Winding up

In the event the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie all or any part of the assets of the Company and he can value any assets and determine how the division shall be carried out as between the members or different classes of members.

The liquidator may also vest the whole or any part of the assets in trustees on such trusts for the benefit of the members, but no member shall be compelled to accept any assets on which there is a liability.

Variation of rights

If at any time the share capital of the Company is divided into shares of different classes, the rights attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or upon the adoption of a resolution passed at a separate general meeting of the holders of shares of that class.

The rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking equally with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Company's Articles of Association.

Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and Articles of Association.

Notification of the acquisition or disposal of major shareholdings

Rule 5 of the Disclosures and Transparency Rules requires disclosure to the issuer by (a) holders of shares with voting rights attached, (b) those entitled to exercise voting rights, and (c) those holding financial instruments which result in a right to acquire shares with voting rights already in issue, when their interests reach, exceed or fall below 3%, and every percentage point above 3%.

Audit information

The Directors who held office at the date of approval of this Directors' Report confirm that so far as they each are aware, there is no relevant audit information (being information needed by the auditors in connection with preparing their audit report), of which the Company's auditors are unaware, and each Director has taken all steps that he ought to have reasonably taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be re-appointed. Ordinary resolutions re-appointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2012 Annual General Meeting. The Audit Committee is currently conducting a tender of the provision of the audit service. It is expected that the tender process will be completed mid-2012 and shareholders will be notified of the outcome accordingly.

Other Statutory Information – continued

Responsibilities of the Directors for the preparation of the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the European Union to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for ensuring that the Company and the Group keep proper accounting records that disclose with reasonable accuracy the financial position of the Company and of the Group and that enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, and have adopted a control framework for application across the Group.

Responsibility statement

Each Director confirms to the best of his knowledge that:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
- the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors' Report comprising pages 2 to 125, and including the sections of the Annual Report and Accounts referred to in these pages, has been approved by the Board and signed on its behalf by:

Robert Welch
Company Secretary
26 March 2012

Registered Office
6th Floor, Cardinal Place
100 Victoria Street
London
SW1E 5JL

Registered in England and Wales No. 05180783

Independent Auditor's Report to the shareholders of Kazakhmys PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Kazakhmys PLC for the year ended 31 December 2011 which comprise the Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of cash flows and the Consolidated and Company statement of changes in equity and the related notes 1 to 50. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 124, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 119, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Ken Williamson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London, United Kingdom
26 March 2012

Consolidated income statement

Year ended 31 December 2011

$ million (unless otherwise stated)	Notes	2011	2010
Continuing operations			
Revenues	7(b)	3,563	3,237
Cost of sales	8(a)	(1,619)	(1,419)
Gross profit		1,944	1,818
Selling and distribution expenses	8(b)	(64)	(55)
Administrative expenses	8(c)	(751)	(657)
Other operating income	8(d)	53	44
Other operating expenses	8(e)	(48)	(37)
Impairment losses	9	(9)	(14)
Share of profits from joint venture	21	100	38
Operating profit		1,225	1,137
Share of profits from associate	22	466	522
Profit before finance items and taxation		1,691	1,659
Analysed as:			
Profit before finance items and taxation (excluding special items)		1,822	1,784
Special items	10	(131)	(125)
Finance income	14	69	90
Finance costs	14	(137)	(157)
Profit before taxation		1,623	1,592
Income tax expense	15(a)	(221)	(203)
Profit for the year from continuing operations		1,402	1,389
Discontinued operations			
(Loss)/profit for the year from discontinued operations	6	(472)	61
Profit for the year		930	1,450
Attributable to:			
Equity holders of the Company		930	1,450
Non-controlling interests		–	–
		930	1,450
Earnings per share attributable to equity holders of the Company – basic and diluted			
From continuing operations ($)	16(a)	2.63	2.60
From discontinued operations ($)	16(a)	(0.88)	0.11
		1.75	2.71
EPS based on Underlying Profit – basic and diluted			
From continuing operations ($)	16(b)	2.76	2.59
From discontinued operations ($)	16(b)	0.04	0.20
		2.80	2.79

Consolidated statement of other comprehensive income

Year ended 31 December 2011

$ million	Notes	2011	2010
Profit for the year		930	1,450
Other comprehensive income/(loss) for the year after tax:			
Exchange differences on retranslation of foreign operations		(21)	31
Recycling of exchange differences on disposal of subsidiary	5	33	–
Recycling of exchange differences on disposal of share in subsidiary	4	–	196
Net share of other comprehensive (loss)/income of joint venture	21	(4)	1
Net share of other comprehensive (loss)/income of associate	22	(109)	27
Other comprehensive (loss)/income for the year		(101)	255
Total comprehensive income for the year		829	1,705
Attributable to:			
Equity holders of the Company		829	1,705
Non-controlling interests		–	–
		829	1,705

Consolidated balance sheet

At 31 December 2011

$ million	Notes	2011	2010
Assets			
Non-current assets			
Intangible assets	18	53	509
Tangible assets		2,793	2,470
Property, plant and equipment	19	2,256	2,031
Mining assets	20	537	439
Investment in joint venture	21	838	742
Investment in associate	22	4,600	4,356
Other non-current investments		10	9
Deferred tax asset	15(b)	61	9
		8,355	8,095
Current assets			
Inventories	23	744	585
Prepayments and other current assets	24	227	155
Income taxes reclaimable		71	45
Trade and other receivables	25	190	264
Investments	26	810	356
Cash and cash equivalents	27	1,102	1,113
		3,144	2,518
Assets classified as held for sale	6	232	382
		3,376	2,900
Total assets		11,731	10,995
Equity and liabilities			
Equity			
Share capital	28(a)	200	200
Share premium		2,650	2,648
Capital reserves	28(c)	(840)	(739)
Retained earnings		6,815	6,097
Attributable to equity holders of the Company		8,825	8,206
Non-controlling interests		7	13
Total equity		8,832	8,219
Non-current liabilities			
Borrowings	30	1,368	1,300
Deferred tax liability	15(b)	6	16
Employee benefits	31	188	58
Provisions	32	86	110
		1,648	1,484
Current liabilities			
Trade and other payables	33	498	403
Borrowings	30	525	519
Income taxes payable		7	33
Dividends payable		1	2
Employee benefits	31	23	–
Provisions	32	43	35
		1,097	992
Liabilities directly associated with assets classified as held for sale	6	154	300
		1,251	1,292
Total liabilities		2,899	2,776
Total equity and liabilities		11,731	10,995

These financial statements were approved by the Board of Directors on 26 March 2012.

Signed on behalf of the Board of Directors

Oleg Novachuk
Chief Executive Officer

Matthew Hird
Chief Financial Officer

Company balance sheet

At 31 December 2011

$ million	Notes	2011	2010
Assets			
Non-current assets			
Investments	39	6,369	6,281
Deferred tax asset		2	–
		6,371	6,281
Current assets			
Prepayments and other current assets		2	3
Income taxes reclaimable		16	6
Intercompany loan	40	825	509
Trade and other receivables	41	20	104
Cash and cash equivalents		1	–
		864	622
Total assets		7,235	6,903
Equity and liabilities			
Equity			
Share capital	28(a)	200	200
Share premium		2,650	2,648
Capital reserves	42	785	785
Retained earnings		3,594	3,265
Total equity		7,229	6,898
Current liabilities			
Trade and other payables	43	6	5
Total liabilities		6	5
Total equity and liabilities		7,235	6,903

Consolidated statement of cash flows

Year ended 31 December 2011

$ million	Notes	2011	2010
Cash flows from operating activities			
Cash inflow from operations before interest, income taxes and dividends from associate	34	1,538	1,451
Interest paid		(66)	(50)
Income taxes paid		(341)	(365)
Dividends from associate	22	113	62
Net cash inflow from operating activities		1,244	1,098
Cash flows from investing activities			
Interest received		9	10
Proceeds from disposal of property, plant and equipment		16	16
Purchase of intangible assets		(8)	(4)
Purchase of property, plant and equipment		(589)	(590)
Investments in mining assets		(118)	(132)
Licence payments for subsoil contracts		(7)	(8)
Acquisition of non-current investments		(1)	(2)
Acquisition of non-controlling interest in subsidiary		(8)	–
Proceeds from disposal of subsidiaries, net of cash disposed	5	111	–
Investment in short-term bank deposits	26	(454)	(298)
Cash disposed of in relation to disposal of subsidiary	4	–	(107)
Net cash flows used in investing activities		(1,049)	(1,115)
Cash flows from financing activities			
Purchase of own shares under the Group's employee share-based payment plans		(5)	(4)
Purchase of own shares under the Group's share buy-back programme		(78)	–
Proceeds from borrowings – net of arrangement fees paid of $8 million (2010: $14 million)		592	855
Repayment of borrowings		(595)	(572)
Dividends paid by the Company		(129)	(80)
Net cash flows (used in)/from financing activities		(215)	199
Net (decrease)/increase in cash and cash equivalents	35	(20)	182
Cash and cash equivalents at the beginning of the year		1,126	945
Effect of exchange rate changes on cash and cash equivalents	35	5	(1)
Cash and cash equivalents at the end of the year	27	1,111	1,126

The consolidated statement of cash flows includes cash flows from both continuing and discontinued operations.

Company statement of cash flows

Year ended 31 December 2011

$ million	Notes	2011	2010
Cash flow from operating activities			
Cash flows from operations before interest, income taxes and dividends received	44	(4)	(94)
Income taxes paid		(4)	(6)
Dividends received		600	2,221
Net cash inflow from operating activities		592	2,121
Cash flows from investing activities			
Capital contributions into subsidiary undertakings		(68)	–
Net cash flows used in investing activities		(68)	–
Cash flows from financing activities			
Purchase of own shares under the Group's share buy-back programme		(78)	–
Advances under intercompany borrowings		(316)	(2,080)
Dividends paid by the Company		(129)	(80)
Net cash flows used in financing activities		(523)	(2,160)
Net increase/(decrease) in cash and cash equivalents		1	(39)
Cash and cash equivalents at the beginning of year		–	39
Cash and cash equivalents at the end of year	45	1	–

Consolidated statement of changes in equity

Year ended 31 December 2011

		Attributable to equity holders of the Company						
$ million	Notes	Share capital	Share premium	Capital reserves[1]	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2010		200	2,648	(994)	4,728	6,582	13	6,595
Profit for the year		–	–	–	1,450	1,450	–	1,450
Exchange differences on retranslation of foreign operations		–	–	31	–	31	–	31
Recycling of exchange differences on disposal of share in subsidiary	4	–	–	196	–	196	–	196
Net share of gains of joint venture recognised in other comprehensive income	21	–	–	1	–	1	–	1
Net share of gains of associate recognised in other comprehensive income	22	–	–	27	–	27	–	27
Total comprehensive income for the year		–	–	255	1,450	1,705	–	1,705
Share-based payment	29	–	–	–	3	3	–	3
Own shares acquired under the Group's employee share-based payment plans	28(b)	–	–	–	(4)	(4)	–	(4)
Dividends paid by the Company	17	–	–	–	(80)	(80)	–	(80)
At 31 December 2010		200	2,648	(739)	6,097	8,206	13	8,219
Profit for the year		–	–	–	930	930	–	930
Exchange differences on retranslation of foreign operations		–	–	(21)	–	(21)	–	(21)
Recycling of exchange differences on disposal of subsidiary	5	–	–	33	–	33	–	33
Net share of losses of joint venture recognised in other comprehensive income	21	–	–	(4)	–	(4)	–	(4)
Net share of losses of associate recognised in other comprehensive income	22	–	–	(109)	–	(109)	–	(109)
Total comprehensive (loss)/income for the year		–	–	(101)	930	829	–	829
Shares issued pursuant to acquisition of non-controlling interest in subsidiary	28(a)	–	2	–	(4)	(2)	(6)	(8)
Share-based payment	29	–	–	–	4	4	–	4
Own shares acquired under the Group's share buy-back programme	28(b)	–	–	–	(78)	(78)	–	(78)
Own shares acquired under the Group's employee share-based payment plans	28(b)	–	–	–	(5)	(5)	–	(5)
Dividends paid by the Company	17	–	–	–	(129)	(129)	–	(129)
At 31 December 2011		200	2,650	(840)	6,815	8,825	7	8,832

[1] Refer to note 28(c) for an analysis of 'Capital reserves'.

Company statement of changes in equity

Year ended 31 December 2011

$ million	Notes	Share capital	Share premium	Capital reserves[1]	Retained earnings	Total equity
At 1 January 2010		200	2,648	785	1,123	4,756
Profit for the year		–	–	–	2,219	2,219
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	2,219	2,219
Share-based payment	29	–	–	–	3	3
Dividends paid	17	–	–	–	(80)	(80)
At 31 December 2010		200	2,648	785	3,265	6,898
Profit for the year		–	–	–	532	532
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	532	532
Shares issued pursuant to acquisition of non-controlling interest in subsidiary	28(a)	–	2	–	–	2
Share-based payment	29	–	–	–	4	4
Own shares acquired under the share buy-back programme		–	–	–	(78)	(78)
Dividends paid	17	–	–	–	(129)	(129)
At 31 December 2011		200	2,650	785	3,594	7,229

[1] Refer to note 42 for an analysis of 'Capital reserves'.

Notes to the consolidated financial statements

Year ended 31 December 2011

1. Corporate information

Kazakhmys PLC (the 'Company') is a public limited company incorporated in the United Kingdom of Great Britain and Northern Ireland. The Company's registered address is 6th Floor, Cardinal Place, 100 Victoria Street, London SW1E 5JL, United Kingdom. The Group comprises the Company and its consolidated divisions as set out below.

The Group operates in the natural resources industry. The Group's operations are primarily conducted through the Company's principal division, Kazakhmys Mining, whose major business is the mining and processing of copper ore into copper cathodes and copper rods, and the refining and sale of precious metals and other by-products of its copper mining process.

The Group operates in a number of divisions within the natural resources sector, the principal activities of which were as follows during the year ended 31 December 2011:

Operating division	Principal activity	Primary country of operations
Kazakhmys Mining	Mining and processing copper and other metals	Kazakhstan
MKM	Copper processing	Germany
Kazakhmys Power	Power generation	Kazakhstan
Kazakhmys Petroleum	Oil and gas exploration	Kazakhstan

An entity within Kazakhmys Power, the Maikuben West coal mine (for the period until 17 May 2011), MKM (for the 12 month period ended 31 December 2011) and Kazakhmys Petroleum (for the period until 23 December 2011) are included as discontinued operations within the consolidated financial statements (see note 6).

The legal names of the constituent companies within the above divisions are shown in note 48 on page 194.

2. Basis of preparation

The financial statements set out on pages 126 to 194 have been prepared using consistent accounting policies. The Company has taken the exemption under section 408 of the Companies Act 2006 and has not published the Company's income statement and related notes.

(a) Going concern

The Group's business activities, together with the factors likely to impact its future growth and operating performance are set out in the Business Review on pages 38 to 39. The financial position of the Group, its cash flows, financial risk management policies and available debt facilities are described in the Financial Review on pages 58 to 75. In addition, note 36 commencing on page 181 sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to commodity prices, interest rates and foreign exchange.

Despite the decline in copper prices in the second half of 2011, the average realised prices for all of the Group's major products in 2011 were higher than the prior year resulting in the business generating strong cash flows during the year. Furthermore, the Group continued to draw down under its major borrowing facility of $2.7 billion put in place at the end of 2009 for the funding of the Group's major development project at Bozshakol and certain mid-sized projects. Offsetting these draw downs, the Group continued to repay $44 million per month under the $2.1 billion PXF facility which will be fully repaid by February 2013. Taking these factors together which have the most significant impact on the Group's liquidity position, the Group has a strong liquidity position with available funds of $1,912 million at 31 December 2011 (including approximately $900 million of funds committed to the development of the Group's major projects), and a net funds position from continuing operations of $19 million. The maturity profile of the Group's debt is long dated with $1,281 million of the total drawn down balance of $1,893 million repayable in maturities extending out for 15 years. The Group also has undrawn credit facilities totalling $1,700 million available at 31 December 2011. The Directors have considered the Group's financial position, the available borrowing facilities, the planned capital expenditure programme and the outlook for the Group's products, and believe there is sufficient cover to meet the Group's anticipated cash flow requirements.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

(b) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment which have been revalued at 1 January 2002 to determine deemed cost as part of the first-time adoption of International Financial Reporting Standards (IFRSs) at that date and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in US dollars ($) and all financial information has been rounded to the nearest million dollars ($ million) except when otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2011 and the Group's financial performance for the year ended 31 December 2011.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This treatment may mean that amounts previously recognised in other comprehensive income are recycled through the income statement.

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests primarily represent the interests in Kazakhmys LLC not held by the Company. The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Refer to note 48 for a list of the Company's significant subsidiaries.

(d) Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the

European Union (EU), and in accordance with the provisions of the Companies Act 2006.

(e) Adoption of standards and interpretations

In preparing the consolidated financial statements, the Group has applied the following standards and interpretations before or on their effective dates:

- IAS 24 'Related party disclosures (Amendment)' which is effective for periods beginning on or after 1 January 2011. The Group early adopted paragraphs 25 to 27 of the standard for the year ended 31 December 2010, which introduces exemptions from certain disclosures in relation to government related entities. The adoption of these paragraphs of the accounting standard has not had an impact on the financial position or performance of the Group, with the amended disclosures being provided in note 38; and
- Improvements to IFRSs. The IASB's improvements project is an annual project that provides a mechanism for making non-urgent but necessary amendments to IFRSs. There are a number of amendments to standards following the 2009 and 2010 improvements projects which may result in consequential changes to accounting policies and other note disclosures. The impact of any consequential changes to the consolidated financial statements is not significant.

The adoption of the standards and interpretations noted above has not had any retrospective impact on the financial position or performance of the Group, and as a result there is no change to previously reported financial information.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

(f) New standards and interpretations not yet adopted

In preparing the consolidated financial statements, the Group has not applied the following relevant standards and interpretations that have been issued but are not yet effective:

- IFRS 9 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Based on the nature of the Group's financial assets, the adoption of the standard is not expected to have a material impact on the financial position or performance of the Group;
- IFRS 10 'Consolidated Financial Statements', issued in May 2011, replaces the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements'. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact on its financial position or performance and intends to adopt the standard no later than the accounting period beginning on 1 January 2013, the applicable date of the standard;
- IFRS 11 'Joint Arrangements', issued in May 2011, replaces IAS 31 'Interests in joint ventures'. The standard establishes accounting principles based on the rights and obligations of the joint arrangement rather than its legal form. The standard introduces two types of joint arrangement – joint operations and joint ventures – and eliminates proportionate consolidation for any form of joint arrangement. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has yet to complete the assessment of the impact of IFRS 11 on the financial position or performance of the Group and intends to adopt the standard by the applicable date;
- IFRS 12 'Disclosure of Interests in Other Entities', issued in May 2011, is a new standard that establishes the disclosure requirements for all entities that a Group has an interest in, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The Group is yet to assess IFRS 12's full impact on the Group's financial statements and intends to adopt IFRS 12 no later than the accounting period beginning on 1 January 2013;
- IFRS 13 'Fair Value Measurement', issued in May 2011, is a new standard that aims to improve consistency and reduce complexity of fair value measurement techniques adopted in financial statements. As the requirements, which are largely aligned between IFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs, the adoption of the standard is not expected to have a material impact on the financial position or performance of the Group. The standard is applicable for accounting periods beginning on or after 1 January 2013 but is available for early adoption; and
- Improvements to IFRSs. There are a number of amendments to certain standards following the 2011 annual improvements project which will be effective from 1 January 2012. The impact of any consequential changes to the consolidated financial statements is not likely to be significant.

These standards and interpretations will be adopted by the Group on the date that they become effective, subject to endorsement by the EU. The full assessment of the impact of the adoption of these standards and interpretations in future periods has not been completed and consequently the potential changes to the reported income or net assets of the Group in the period of initial application and the presentation of these in the consolidated financial statements has yet to be determined. The Directors intend to adopt these standards in full from their respective applicable dates.

(g) Change in accounting policies

There have been no changes to accounting policies during the year, except for the adoption of new standards and interpretations as disclosed in note 2(e).

(h) Comparative information

Where a change in the presentation format of the consolidated financial statements has been made during the year, comparative figures have been restated accordingly.

(i) Significant accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements.

Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. Basis of preparation – continued

(i) Critical judgments in applying the Group's significant accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), which the Directors believe are likely to have the most significant effect on the amounts recognised in the consolidated financial statements.

Equity accounting of associate

At 31 December 2011, the Group owned 26.0% of ENRC PLC, a Kazakhstan-based mining company listed on the London Stock Exchange.

The investment has been recorded as an associate and accounted for under the equity method in accordance with IAS 28 'Investments in Associates.' IAS 28 states that there is a rebuttable presumption that significant influence exists where an investor holds more than 20% of the voting power of the investee. Although Kazakhmys does not have representation on the board of ENRC, the Directors believe that the Group has the ability to exercise significant influence by virtue of its substantial shareholding, whereby the Group owns in excess of 25% of the issued share capital of ENRC and is the single largest shareholder.

This interest confers the Group with certain additional rights and influence under the Companies Act 2006 (CA06) which allows the Group to block special resolutions proposed by ENRC at general meetings. Consequentially, through the provisions of the CA06, the Group is able to participate in policy making processes of ENRC, including participation about distributions such as share buy-backs, which form part of ENRC's capital management strategy.

The Directors are of the view that the Group has influence over the acquisition strategy of ENRC by having the ability to block related party transactions which ENRC have a history of making, where these transactions are over and above the de-minimis exemption in the Listing Rules.

Furthermore, the frequency and nature of meetings between the two companies have changed substantially since the Group increased its shareholding above 25%, with matters such as acquisition strategy and the exchange of technical information regarding power generation, taxation and mining safety being discussed.

In the Directors' judgement, the Group has the ability to exercise significant influence over ENRC. The Directors therefore believe that it remains appropriate for the Group to equity account for its interest in ENRC in accordance with IAS 28.

Exploration and evaluation expenditure

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires the Directors to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under this accounting policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

In the previous year, at 31 December 2010, the most significant asset where the Directors applied their judgement in the area of exploration and evaluation expenditure related to Kazakhmys Petroleum and the ongoing exploration and evaluation programme. The Directors considered the following matters in reaching their judgement:

- although the exploration licence of Kazakhmys Petroleum expired in May 2011, the Directors were, at the time, of the opinion that the licence would be prolonged based on the positive discussions held with the Governmental authorities. The licence was subsequently renewed on 7 June 2011;
- at that stage in the exploration and evaluation of the existing wells it was too early to conclude on the economic viability of the wells until the test results were analysed and the evaluation completed; and
- there were no indications that would require the Group to permanently discontinue the exploration programme and the Group remained committed to the project with approval for further capital expenditure included in the 2011 Group budget.

Based on the above considerations, the Directors concluded that no impairment indicators existed in relation to the exploration and evaluation assets of Kazakhmys Petroleum at 31 December 2010.

Following drilling results received at the end of June 2011, and the receipt of an offer to purchase the Petroleum business in July 2011, the Directors performed an impairment review of Kazakhmys Petroleum. The net expected proceeds from the disposal of $100 million plus contingent consideration in the form of potential royalties of up to $476 million, dependent upon future oil revenues, was used to determine the recoverable amount, resulting in a $444 million impairment charge being recognised. In determining the consideration receivable, no value has been assigned to the contingent consideration given the inherent uncertainties in oil exploration and the adverse drilling results which led to the asset's impairment. The sale and purchase agreement was signed on 24 August 2011 and the sale completed on 23 December 2011. Consequently, the business ceased to be consolidated with effect from the disposal date and a loss on disposal of $24 million has been realised in the Group's consolidated income statement for the year ended 31 December 2011, arising from the recycling of the foreign currency translation reserves which arose on conversion of the tenge denominated assets and liabilities of Kazakhmys Petroleum into US dollars.

Assets held for sale and discontinued operations

During 2009 the Directors decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. The business was classified as an asset held for sale at 31 December 2009, and correspondingly as a discontinued operation in the consolidated income statement for the 2009 financial year. This classification was made as the Group believed that a sale was highly probable to take place within 12 months from the date the business was first classified as held-for-sale. The sale of MKM has not completed within the envisaged 12 month period, as negotiations with potential acquirers have taken longer than was originally anticipated, principally due to challenges faced by potential interested parties in raising the finance necessary to complete the transaction. The failure of the potential acquirers to secure the level of funding required to meet MKM's working capital requirements is a factor that was neither anticipated nor within management's control. As a result of the prolonged sales process, should a private sale not complete in the near future, management will appoint an investment bank to market the MKM business more internationally which would represent a change in the sales strategy as the previously internally managed disposal process focussed on targeting potential European acquirers only. In addition, the Group's strategic objective of disposing of MKM remains the same, and discussions continue with a number of interested parties at a price consistent with previous expectations. Based on these facts, the Directors consider that MKM continues to meet the criteria to be classified as held for sale at the balance sheet date, including, in particular, that a disposal is considered to be highly probable within the next 12 months.

Determining the fair value of the Guarantee issued by the Group to the China Development Bank ("CDB") in respect of Samruk-Kazyna

In 2010, the Group secured a $2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a $3.0 billion financing line agreed between CDB and Samruk-Kazyna. As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided a guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under its $3.0 billion financing line (the "Guarantee"). The Company's liability under the Guarantee is capped at $1.7 billion of principal plus 85% of any interest and any other duly payable costs and expenses. An indemnity and netting-off agreement was entered into between the Company and Samruk-Kazyna ensuring that any payments made under the Guarantee would be netted off against payments to be made by Kazakhmys Finance PLC (the principal borrower in the loan agreements between Kazakhmys and Samruk-Kazyna) under the loan agreements between it and Samruk-Kazyna.

In determining the fair value of the Guarantee in accordance with IAS 39, the right to net off payments made by the Company to the CDB under the Guarantee against the balance payable by Kazakhmys Finance PLC to Samruk-Kazyna under the financing line between these parties is governed by English law, under which the Directors have assumed the indemnity and netting-off agreement will be effective in the event of a default by Samruk-Kazyna under its financing line with the CDB. The consequence of this assumption is the fair value of the Guarantee is less than $5 million, an immaterial figure in the context of a financing line available to the Group of $2.7 billion. Should the indemnity and netting-off agreement not prove successful in a legal or insolvency challenge in Kazakhstan, this would result in a potentially larger liability as the Group would be required to fair value the full $1.7 billion exposure under the Guarantee.

Determination of excess profits taxation

Following the introduction of new tax legislation on 1 January 2009, the Directors interpreted the new tax legislation and the terms of the Group's subsoil licences and believed that excess profits tax was not applicable to the Group's operations after this date. This view was supported by discussions and correspondence with the Governmental authorities. The Directors believe that the Group's judgements in the past and at the current time are reasonable and in compliance with Kazakhstan tax legislation, however accept the risk that the tax authorities might have a different interpretation of tax legislation at the time of a future tax audit.

During 2010 and 2011, Kazakhmys LLC pursued through the courts in Kazakhstan confirmation of Kazakhmys LLC's status as an excess profits taxation payer in the periods up to and including 2008. In October 2011, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC, such that Kazakhmys LLC should not have been an excess profits tax payer in the periods up to and including 2008. Following this ruling as well as the results of two previous tax audits for the years 2003 to 2008, where the tax authorities confirmed Kazakhmys LLC's methodology in calculating its excess profits taxation liabilities by making no further claims, the Group has released the excess profits tax provision of $49 million (including fines and penalties) that was recognised in earlier years. The provision was recognised previously due to the uncertainties over the judgements that were made in respect of Kazakhmys LLC's methodology of computing excess profits tax in periods up to and including 2008.

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of assets

The Directors review the carrying value of the Group's tangible and intangible assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen can require considerable judgement taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. Where such indicators exist, the carrying value of the assets of a cash generating unit is compared with the recoverable amount of those assets, that is, the higher of net realisable value and value in use, which is determined on the basis of discounted future cash flows. This involves management estimates on commodity prices, market demand and supply, economic and regulatory climates, long-term mine plans and other factors. Any subsequent changes to cash flows due to changes in the above mentioned factors could impact the carrying value of the assets.

For the years ended 31 December 2011 and 31 December 2010, the most significant impairment charges related to businesses classified as discontinued operations in the consolidated financial statements, with impairment charges being recognised for Kazakhmys Petroleum $444 million (2010: $nil), MKM $9 million (2010: $58 million) and the Maikuben West coal mine $nil (2010: $12 million), each of which were written down to their recoverable amounts, represented by the fair value less costs to sell of each asset.

At 31 December 2011, the carrying value of the Group's equity investment in ENRC of $4,600 million exceeded the market value of $3,289 million by an amount that the Directors deemed as significant as envisaged by IAS 39 'Financial instruments: recognition and measurement'. As a result, an impairment review was performed in accordance with IAS 36 'Impairment of assets', which concluded that no impairment was necessary as the recoverable amount of the ENRC investment, being its value-in-use, exceeded the carrying value. In determining the value-in-use of the ENRC investment, the Directors made estimates of the future cash flows to be generated by ENRC using publically available information on ENRC's production volumes and capital expenditure, inflation, exchange rates and commodity price forecasts.

Determination of ore reserves

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

The Group estimates its ore reserves and mineral resources based on information compiled by competent persons as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC code). A review of the Group's reserves and resources is undertaken on an annual basis by an independent competent person.

In assessing the life of a mine for accounting purposes, mineral reserves are only taken into account where there is a high degree of confidence of economic extraction. Since the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;

2. Basis of preparation – continued

- 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.

Provision for environmental pollution charges ("EPC")

The tax audit conducted for the years 2006 to 2008 within Kazakhmys LLC, identified a potential exposure related to EPC resulting from a difference in interpretation on the applicability of the "Law on Foreign Investment" dated 27 December 1994 (the "Law"). The Law grants foreign investors stability, inter alia, over taxes and related legislative matters, for a period of 10 years from the date of investment by a foreign investor or from the commencement of the relevant operating licence being awarded to a foreign investor. In 1999, the relevant state agency confirmed that the predecessor company to Kazakhmys LLC was eligible for stabilisation under the Law, and consequently Kazakhmys LLC applied stabilised EPC rates in earlier years when calculating its EPC liabilities to 2008. The tax authorities challenged the eligibility of Kazakhmys LLC to apply stabilised EPC rates under the Law.

At 31 December 2010, the Directors assessed the position of Kazakhmys LLC and made a provision reflecting the probability that a settlement would be negotiated with the tax authorities following agreement being reached on the interpretation of the Law. During 2011, the relevant state agency confirmed the date from which Kazakhmys LLC should be eligible for stabilised EPC rates under the Law. Following this confirmation, and the greater certainty over the application of stabilised EPC rates, the tax authorities reassessed the EPC liability for the years 2006 to 2008. As a result, the EPC liability accrued as at 31 December 2011 has been revised to reflect the amended assessment provided by the tax authorities, notwithstanding that the Group has challenged the basis of certain of the claims assessed by the tax authorities (see note 32).

Other areas of estimation uncertainty

- Note 4 – Loss of control of subsidiary. Assumptions and estimates were required when determining the fair value of the net assets and liabilities of the Group's 50% retained interest in Ekibastuz GRES-1 LLP;
- Note 6 – Discontinued operations. Assumptions and estimates are required when determining the fair value less costs to sell of assets held for sale;
- Note 15 – Income taxes. Management makes estimates in relation to the level of taxes payable which may then be audited by the tax authorities at a future date;
- Note 32 – Provisions. Estimates are made regarding the timing of future payments and the appropriate discount rate applied to these cash flows; and
- Note 37 – Commitments and contingencies. These require management to determine the likelihood of cash outflows in the future and to estimate the amounts that possibly might be payable.

3. Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied across the Group.

(a) Foreign currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

The functional currency of the Company and Kazakhmys Sales Limited is the US dollar ($) as the majority of the operating activities are conducted in US dollars. The functional currency of production and exploration entities within Kazakhmys Mining, Kazakhmys Power and Kazakhmys Petroleum is the Kazakhstan tenge (KZT) and of MKM is the Euro (€). On consolidation, income statements of subsidiaries are translated into US dollars, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. Exchange differences on the retranslation are taken to a separate component of equity. All other exchange differences are charged or credited to the income statement in the year in which they arise. The following foreign exchange rates against the US dollar have been used in the preparation of the consolidated financial statements:

	31 December 2011		31 December 2010	
	Spot	Average	Spot	Average
Kazakhstan tenge	148.40	146.62	147.40	147.35
Euro	0.77	0.72	0.75	0.75
UK pounds sterling	0.65	0.62	0.65	0.65

(b) Business combinations

The Group applies the purchase method to account for business combinations. On the acquisition of a subsidiary, the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair values at the date of acquisition. Those mining rights, mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights, for which in the Directors' opinion, values cannot be reliably determined, are not recognised.

The consideration transferred (cost of acquisition) is the aggregate of: (a) the fair values at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group; and (b) the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred in the income statement.

When the cost of acquisition exceeds the fair value attributable to the Group's share of the identifiable net assets, the difference is treated as purchased goodwill.

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognises any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Group recognises the resulting gain in the income statement on the acquisition date.

When a subsidiary is acquired in a number of stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Similar procedures are applied in accounting for the purchases of interests in associates and joint ventures. Any goodwill arising on such purchases is included within the carrying amount of the investment in the associate, but not thereafter amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in the income statement in the period of the purchase.

(c) Intangible assets

(i) Mineral licences and other intangible assets

Mineral licences and other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost (which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use) less accumulated amortisation and impairment losses. The cost of intangible assets acquired in a business combination is its fair value which can be measured reliably as at the date of acquisition.

(ii) Amortisation

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

(d) Property, plant and equipment

(i) Initial measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. The unit of production method is the ratio of commodity production in the period to the estimated quantities of commercial reserves over the life of the mine (using proven developed reserves as determined by the local geological classification system) based on the estimated economically recoverable reserves to which they relate. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

Depreciation commences on the date the assets are used within the business. Freehold land is not depreciated.

The expected useful lives are as follows:

Buildings	15-40 years
Plant and equipment	4-25 years
Other	3-15 years

(iii) Construction in progress

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

Construction in progress is not depreciated.

(iv) Repairs and maintenance

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

(v) Leasing and hire purchase commitments

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

(e) Mining assets

(i) Mineral properties

Costs of acquiring mineral properties are capitalised on the balance sheet in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised during the commissioning period (development expenditure) where the asset is incapable of operating at normal levels without a commissioning period. Mineral properties are amortised over the remaining life of the mine using a unit of production method.

(ii) Mine development costs

Mine development costs are incurred to obtain access to proved reserves or mineral-bearing ore deposits and to provide facilities for extracting, lifting, and storing minerals. Such costs are, upon commencement of production, amortised using a unit of production method.

(iii) Mine stripping costs

Mine stripping costs incurred in order to access the mineral-bearing ore deposits are deferred prior to the commencement of production. Such costs are amortised over the remaining life of the mine using a unit of production method.

The cost of removal of the waste material during a mine's production phase is deferred if the stripping activity permits an increase in the output of the mine in future periods through providing access to additional sources of reserves that will be produced in future periods. Capitalised stripping costs are amortised in systematic manner over the reserves that directly benefit from the specific stripping activity.

(iv) Exploration and evaluation costs

Exploration and evaluation expenditure for each area of interest once the legal right to explore has been acquired, other than that acquired through a purchase transaction, is carried forward as an asset, within mining assets, provided that one of the following conditions is met:

- such costs are expected to be recouped through successful exploration and development of the area of interest or, alternatively, by its sale;

3. Summary of significant accounting policies – continued

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred.

Identifiable exploration and evaluation assets acquired in a purchase transaction are recognised as assets at their cost, or fair value if purchased as part of a business combination. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Exploration and evaluation assets attributable to producing interests are amortised on a unit of production basis.

(f) Oil and gas assets

(i) Exploration, evaluation and production assets

The Group adopts the successful efforts method of accounting for oil and gas exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs are capitalised insofar as they relate to specific exploration and development activities. Pre-licence costs are expensed in the period in which they are incurred.

All capitalised licence acquisition, exploration and evaluation costs are then written off unless commercial reserves have been established, or the determination process has not been completed, or there are no indicators of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are depreciated on a unit of production basis.

(ii) Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves.

(iii) Depletion and amortisation – discovery fields

All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves over the life of the field, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

(g) Impairment

The Group conducts annual internal assessments of the values of any intangible assets with an indefinite life. The carrying values of mining assets, oil and gas assets, capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount.

Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised for the asset in prior years. Such reversals are recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

(h) Equity accounted investments

A joint venture entity is an entity in which the Group holds a long-term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers under a contractual arrangement.

Entities in which the Group has the ability to exercise significant influence and which are neither subsidiaries nor joint ventures, are associates. There is a rebuttable presumption of the ability to exercise significant influence when the Group holds between 20% and 50% of the voting power of another entity.

The Group accounts for investments in joint ventures and associates using the equity method except when such investments are classified as held-for sale.

Under the equity method of accounting, the investment in the joint venture and associate is recognised on the balance sheet on the date of acquisition at cost representing the fair value of the purchase consideration and therefore includes any goodwill on acquisition.

The Group's income statement reflects the share of a joint venture's and associate's results after tax and the Group's statement of comprehensive income includes any amounts recognised by the joint venture and associate outside of the income statement. The carrying amount of the investment is adjusted by the Group's share of the cumulative post-acquisition profit or loss net of any impairment losses and dividends receivable from the joint venture and associate. Where there has been a change recognised directly in the equity of the joint venture and associate, the Group recognises its share of such changes in equity. Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and the joint venture and associate.

The carrying values of joint ventures and associates are reviewed on a regular basis and if an impairment in value has occurred, it is written off in the period in which those circumstances are identified. An impairment indicator is deemed to exist where the market value of a listed investment exceeds its carrying value by an amount that is significant or for a prolonged period of time, as envisaged by IAS 39 'Financial instruments: recognition and measurement'. Should an impairment indicator exist, an estimate of the investment's recoverable amount is calculated in accordance with IAS 36 'Impairment of assets'. If the carrying amount of the investment exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount.

The Group discontinues its use of the equity method from the date on which it ceases to have joint control or exert significant influence, and from that date, accounts for the investment in accordance with IAS 39 (with its initial cost being the carrying amount of the joint venture or associate at that date), provided the investment does not then qualify as a subsidiary.

(i) Parent company's investments

Non-current investments are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. Cost is determined on the following bases:

- Raw materials and consumables are valued at cost on a first-in, first-out (FIFO) basis; and
- Work in progress and finished goods are valued at the cost of production, including the appropriate proportion of depreciation, labour and overheads based on normal operating capacity. The cost of work in progress and finished goods is based on the weighted average cost method.

Net realisable value represents estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

(k) Trade and other receivables

Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities less than three months at inception and highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(m) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Non-current assets (or disposal groups) held for sale are carried at the lower of the carrying amount prior to being classified as held for sale, and the fair value less costs to sell. A non-current asset is not depreciated while classified as held for sale. A non-current asset held for sale is presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale are presented separately as one line in the assets and liabilities sections on the face of the balance sheet.

An asset or business is considered to be a discontinued operation if it has been sold or is classified as held for sale and is part of a single co-ordinated plan to dispose of either a separate major line of business or is a subsidiary acquired exclusively with a view to sale. Once an operation has been identified as discontinued, its net profit is presented separately from continuing operations. Comparative information is reclassified so that the net profit of the prior period is also presented separately.

(n) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(o) Employee benefits

(i) Long-term employee benefits

The Group's entities located in Kazakhstan remit contributions to defined contribution pension plans on behalf of its employees. Contributions to be paid by the Group are withheld from employees' salaries and are recognised as part of the salary expense in the income statement as incurred.

The Group's unfunded defined benefit plans, including the death and disability plans for current and former employees, are accounted for in accordance with IAS 19 'Employee Benefits', such that the plan liabilities are measured by actuarial valuations using the projected unit credit method.

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

Actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions are recognised depending on the nature of the post-employment benefit. In respect of the death and disability benefit plans, these actuarial gains and losses are recognised immediately in the income statement. The Group recognises actuarial gains and losses falling outside a 'corridor' of the greater of 10% of the benefit obligation or 10% of the assets, amortised over the expected average future working lifetime of employees in the arrangements for all other long-term defined benefit plans. The expense in relation to these long-term employee benefits is charged to the income statement so as to match the cost of providing these benefits to the period of service of the employees.

3. Summary of significant accounting policies – continued

(ii) Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined using the Monte Carlo method and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

(p) Own shares

Own equity instruments which are re-acquired either by the Employee Benefits Trust for the purposes of the Group's employee share-based payment plans or by the Company as part of any share buy-back programmes are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

(q) Trust activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements. Transactions entered into with these trust activities are expensed in the consolidated financial statements.

(r) Social programmes

The Group is obliged to contribute towards social programmes for the benefit of the local community at large. The Group's contributions towards these programmes are expensed to the income statement at the point when the Group is committed to the expenditure.

(s) Provisions

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

(i) Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Any change in restoration costs or assumptions will be recognised as additions or charges to the corresponding asset and provision when they occur. For permanently closed sites, changes to estimated costs are recognised immediately in the income statement.

(ii) Payments for licences

In accordance with the terms of subsoil use contracts, provision is made for future licence payments when the Group has a present obligation to repay the costs of geological information provided for licensed deposits. The amount payable is discounted to its present value.

(iii) Other

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

(t) Revenue

Revenue represents the value of goods and services supplied to third parties during the year. Revenue is measured at the fair value of consideration receivable, and excludes any applicable sales tax. Mining royalties and mineral extraction taxes are included within cost of sales.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title and any insurance risk has passed to the customer and the goods have been delivered in accordance with the contractual delivery terms or when any services have been provided.

Almost all sales agreements for copper cathodes, copper rods and copper and zinc concentrate are provisionally priced, (i.e. the selling price is subject to final adjustment at the end of a quotation period, typically the average price either for the month or the month following delivery to the customer), based on the LME market price for the relevant quotation period stipulated in the contract. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of a commodity at the provisional invoice price, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales are marked-to-market using forward prices, with adjustments (both gains and losses) being recorded in revenue in the consolidated income statement and in trade receivables or trade payables in the consolidated balance sheet.

(u) Finance income

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

(v) Finance costs

Finance costs comprise interest expense on borrowings which are not capitalised under the borrowing costs policy (see 3(w) below), the unwinding of interest cost on provisions and foreign exchange losses.

(w) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the year. All other borrowing costs are recognised in the income statement in the period in which they are incurred using the effective interest rate method.

Borrowing costs that represent avoidable costs not related to the financing arrangements of the development projects and are therefore not directly attributable to the construction of these respective assets are expensed in the period as incurred. These borrowing costs generally arise where the funds are drawn down under the Group's financing facilities, whether specific or general, which are in excess of the near term cash flow requirements of the development projects for which the financing is intended, and the funds are drawn down ahead of any contractual obligation to do so.

(x) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Excess profits tax is treated as income tax and forms part of the income tax expense.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- those arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(y) Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

(z) Financial instruments

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in the income statement.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted investments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are typically loans and receivables created by the Group in providing money to a debtor.

   After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. Allowance for impairment is estimated on a case-by-case basis.

b) Available for sale investments are non-derivative financial assets and include investments that are held for sale, although there is no time frame in which management is required to sell them. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date, in which case they are included within current assets. These assets are recorded at fair value with the unrealised movements in fair value being recognised directly in equity until disposal or sale, at which time, those unrealised movements from prior periods are recognised in the income statement.

c) Held-to-maturity investments are classified as such depending upon the intent of management at the time of the purchase. Investments with fixed maturities and fixed or determinable payments that management has both the positive intent, and the ability to hold to maturity, are classified as held-to-maturity. Held-to-maturity investments are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. Summary of significant accounting policies – continued

For available for sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

a) Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated at initial recognition as the fair value through profit or loss category. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The Group has not designated any financial liabilities upon initial recognition as the fair value through profit or loss category.

b) Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method after initial recognition. Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(iii) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as commodity forward contracts to hedge risks associated with commodity price fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement, and is included in either the 'other operating income' or 'other operating expenses' line.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement and in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or it is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Where the Group enters into derivative contracts that are not hedging instruments in hedge relationships as defined by IAS 39, these are carried in the balance sheet at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would have been expected.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet when there is an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 36.

4. Loss of control of subsidiary

On 26 February 2010, the Group completed the disposal of 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within Kazakhmys Power. In accounting for the transaction, the Group applied IAS 27 'Consolidated and separate financial statements' (Revised) for the first time. Accordingly, the loss of control of Ekibastuz GRES-1 LLP was accounted for as: (a) a disposal of the 50% interest in Ekibastuz GRES-1 LLP, whilst accounted for as a subsidiary and (b) the recognition of the retained 50% interest as an investment in a joint venture.

(a) Disposal of 50% interest in Ekibastuz GRES-1 LLP

In December 2009 it was announced that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP to Samruk-Kazyna for a consideration of $681 million. The transaction completed on 26 February 2010 resulting in the Group losing control of the subsidiary and recording a profit on disposal in the income statement for the period.

The results of the transaction are presented as follows:

$ million	26 February 2010
Assets	
Goodwill arising on acquisition	443
Property, plant and equipment	783
Inventories	4
Trade and other receivables	38
Cash and cash equivalents	107
Liabilities	
Borrowings	(68)
Deferred tax liability	(106)
Trade and other payables	(27)
Net identifiable assets	1,174
Share sold	50%
Share of net identifiable assets disposed of	587
Recycling of foreign currency translation reserve	196
Consideration received[1]	(681)
Remeasurement of the retained non-controlling interest	(116)
Gain on disposal of share in subsidiary	(14)

[1] The consideration of $681 million was received in advance of the transaction completing on 26 February 2010 and was included in the balance sheet as at 31 December 2009. As the consideration was received in the previous period, the cash flow statement for the period ended 31 December 2010 includes a cash outflow of $107 million within investing activities relating to the cash included on the completion balance sheet of Ekibastuz GRES-1 LLP at the date of the disposal.

The results for the period ended 26 February 2010 of Ekibastuz GRES-1 LLP are included in the income statement within the profit for the period from discontinued operations. The results of the period from 27 February 2010 to 31 December 2010, and for the period ended 31 December 2011 are included within continuing operations as the share of profits from joint venture (see note 21).

(b) Recognition of the retained 50% interest in Ekibastuz GRES-1 LLP

The disposal of 50% of Ekibastuz GRES-1 LLP resulted in the loss of control of the entity and the Group's remaining interest now represents an investment in a joint venture. The investment in the joint venture has been recorded at its fair value at the date of acquisition with the excess over the previous carrying value recognised in the income statement as a gain on remeasurement of the non-controlling interest held by the Group.

$ million	26 February 2010
Carrying value of the retained percentage of Ekibastuz GRES-1 LLP (50% of $1,174 million)	587
Remeasurement of the retained non-controlling interest	116
Fair value of the retained non-controlling interest	703

The fair value of the 50% retained non-controlling interest in Ekibastuz GRES-1 LLP was determined using a discounted cash flow analysis.

A summary of the financial performance of the joint venture for the period since acquisition and its financial position as at 31 December 2011 is disclosed in note 21.

5. Disposal of subsidiaries

The results of the disposal transactions are presented below:

$ million	Maikuben West coal mine	Kazakhmys Petroleum	Total
Assets			
Intangible assets	–	7	7
Property, plant and equipment	24	122	146
Inventories	3	1	4
Prepayments and other current assets	10	9	19
Trade and other receivables	8	–	8
Cash and cash equivalents	5	6	11
Liabilities			
Deferred tax (liability)/asset	(3)	5	2
Provisions	(2)	(23)	(25)
Trade and other payables	(31)	(8)	(39)
Net identifiable assets	14	119	133
Recycling of foreign currency translation reserve	9	24	33
Consideration received[1]	(3)	(119)	(122)
Loss on disposal of subsidiaries	20	24	44

1 Of the total consideration of $119 million related to the disposal of Kazakhmys Petroleum, $19 million represents the completion adjustment which is expected to be received within three months from the date the completion balance sheet is agreed. This amount is included within 'trade and other receivables'. The $111 million reflected as proceeds from disposal of subsidiaries in the consolidated cash flow statement represents the total consideration receivable of $122 million net of the cash held on the respective balance sheets of these companies at their dates of disposal of $11 million.

(a) Maikuben West coal mine

On 17 May 2011, the Group completed the disposal of the Maikuben West coal mine, an entity within the Kazakhmys Power segment. The results of the prior year and the period ended 17 May 2011 of the Maikuben West coal mine are included within profit from discontinued operations (see note 6 (b)).

(b) Kazakhmys Petroleum

On 23 December 2011, the Group completed the disposal of Kazakhmys Petroleum for a total consideration of $119 million plus contingent consideration in the form of potential royalties of up to $476 million, dependent on future oil revenues. In determining the consideration receivable, no value has been assigned to the contingent consideration given the inherent uncertainties in oil exploration and the adverse drilling results which led to the asset's impairment. The consideration also includes $19 million, included within trade and other receivables, related to a completion price adjustment which will be paid within three months from the date the completion balance sheet is agreed. The results of the prior year and the period ended 23 December 2011 of Kazakhmys Petroleum are included within profit from discontinued operations (see note 6 (c)).

6. Discontinued operations and assets held-for-sale

Discontinued operations consist of MKM (see note 6(a)), the Ekibastuz GRES-1 coal-fired power plant (for the period up to 26 February 2010) and the Maikuben West coal mine (for the period up to 17 May 2011) within the Kazakhmys Power Division (see note 6(b)) and Kazakhmys Petroleum (for the period up to 23 December 2011, see note 6(c)).

The results from discontinued operations for the year as shown in the consolidated income statement are shown below:

$ million	2011	2010
Revenues	1,690	1,510
Cost of sales	(1,583)	(1,285)
Operating costs	(74)	(87)
Net finance costs	(11)	(9)
Impairment loss recognised on the remeasurement to fair value less costs to sell	(453)	(70)
(Loss)/profit before tax from discontinued operations	(431)	59
Income taxes:		
Related to current year loss before taxation (current and deferred taxes)	1	(24)
Related to remeasurement to fair value less costs to sell (deferred tax)	2	12
	(428)	47
Loss on disposal of subsidiaries (see note 5)	(44)	–
Gain on disposal of share in subsidiary (see note 4)	–	14
	(44)	14
(Loss)/profit for the year from discontinued operations	(472)	61
Analysed as:		
MKM	12	15
Kazakhmys Power	(13)	47
Kazakhmys Petroleum	(471)	(1)

As the Ekibastuz GRES-1 coal-fired power plant, the Maikuben West coal mine and Kazakhmys Petroleum were sold prior to 31 December 2011, assets classified as held for sale and liabilities directly associated with those assets at 31 December 2011 relate solely to MKM.

The balance sheets of the discontinued operations are shown below:

$ million	2011	2010
Assets		
Property, plant and equipment	14	21
Inventories	95	202
Prepayments and other current assets	–	5
Trade and other receivables	114	141
Cash and cash equivalents	9	13
Assets classified as held for sale	232	382
Liabilities		
Borrowings	(121)	(191)
Deferred tax liability	–	(7)
Employee benefits and provisions	(6)	(8)
Trade and other payables	(18)	(84)
Income taxes payable	(9)	(10)
Liabilities directly associated with assets classified as held for sale	(154)	(300)
Net assets directly associated with disposal groups	78	82

The analysis of total assets and liabilities directly associated with the disposal groups are shown below:

$ million	2011	2010
Assets classified as held for sale:		
MKM	232	343
Kazakhmys Power	–	39
	232	382
Liabilities directly associated with assets classified as held for sale:		
MKM	(154)	(264)
Kazakhmys Power	–	(36)
	(154)	(300)

Net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

$ million	2011	2010
Operating activities	105	42
Investing activities	(51)	(174)
Financing activities	(82)	116
Net cash outflow	(28)	(16)

(a) MKM

During 2009 the Directors decided to dispose of MKM given the Group's strategy is to focus on natural resource opportunities in the Central Asian region. The business was classified as an asset held for sale at 31 December 2009, and correspondingly as a discontinued operation in the consolidated income statement for the 2009 financial year. This classification was made as the Group believed that a sale was highly probable to take place within 12 months from the date the business was first classified as held-for-sale. The sale of MKM has not completed within the envisaged 12 month period, as negotiations with potential acquirers have taken longer than was originally anticipated, principally due to challenges faced by potential interested parties in raising the finance necessary to complete the transaction. The failure of the potential acquirers to secure the level of funding required to meet MKM's working capital requirements is a factor that was neither anticipated nor within management's control. As a result of the prolonged sales process, should a private sale not complete in the near future, management will appoint an investment bank to market the MKM business more internationally which would represent a change in the sales strategy as the previously internally managed disposal process focussed on targeting potential European acquirers only. In addition, the Group's strategic objective of disposing of MKM remains the same, and discussions continue with a number of interested parties at a price consistent with previous expectations. The Directors, however, consider that MKM still meets the criteria to be classified as held for sale at the balance sheet date for the following reasons:

- MKM is available for immediate sale and can be sold to a potential buyer in its current condition;
- the Group's strategic objective of disposing of MKM remains the same and the Directors remain committed to the sales process;
- an active marketing programme continues, with discussions being held with a number of interested parties for the purchase of the business at a price consistent with previous expectations, of which some of these parties have provided expressions of interest and have undertaken due diligence on MKM; and
- a disposal within 12 months is considered to be highly probable.

6. Discontinued operations – continued

(i) Results of discontinued operation

The results of MKM for the year are presented below:

$ million	2011	2010
Revenues	1,665	1,387
Cost of sales	(1,579)	(1,253)
Operating costs	(60)	(53)
Net finance costs	(8)	(7)
Impairment loss recognised on the remeasurement to fair value less costs to sell	(9)	(58)
Profit before tax from discontinued operation	9	16
Income taxes:		
Related to current year profit before taxation	1	(13)
Related to remeasurement to fair value less costs to sell (deferred tax)	2	12
Profit for the year from discontinued operation	12	15

At 31 December 2011, the carrying value of MKM has been written down to its fair value less costs to sell with the result that an impairment charge of $9 million (2010: $58 million) has been recognised for the year. The postive operating and financial performance of MKM resulted in an increase in its carrying value during the year, which exceeded its fair value less costs to sell as previously recorded.

(ii) Balance sheet

The major classes of assets and liabilities of MKM classified as held for sale as at 31 December are as follows:

$ million	2011	2010
Assets		
Property, plant and equipment	14	–
Inventories	95	200
Trade and other receivables	114	137
Cash and cash equivalents	9	6
Assets classified as held for sale	232	343
Liabilities		
Borrowings	(121)	(191)
Deferred tax liability	–	(4)
Employee benefits and provisions	(6)	(5)
Trade and other payables	(18)	(54)
Income taxes payable	(9)	(10)
Liabilities directly associated with assets classified as held for sale	(154)	(264)
Net assets directly associated with disposal group	78	79

During 2011, the Group refinanced the previous €170 million three year revolving trade finance facility which attracted interest at a rate of EURIBOR + 3.00%, with a new €220 million revolving trade finance facility with a syndicate of banks for a four year loan with a final maturity in July 2015. Interest is payable on the drawn balance of the new facility at a rate of EURIBOR + 2.25%. The loan, consistent with the previous loan, is secured over the inventories and receivables of MKM.

The amount of inventories held as security for MKM borrowings is $95 million (2010: $200 million).

The amount of trade receivables held as security for MKM borrowings is $114 million (2010: $137 million).

(iii) Cash flows

The net cash flows incurred by MKM are as follows:

$ million	2011	2010
Operating activities	101	(15)
Investing activities	(16)	(14)
Financing activities	(82)	35
Net cash inflow	3	6

(b) Kazakhmys Power

(i) Results of discontinued operations

The Kazakhmys Power Division comprised two distinct businesses: the Ekibastuz GRES-1 power plant and the Maikuben West coal mine.

Ekibastuz GRES-1 power plant

On 26 February 2010 the Group sold 50% of its interest in Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power Division, to Samruk-Kazyna for a consideration of $681 million. The Group has retained a non-controlling interest of 50% in the entity which is accounted as a joint venture after the date of completion. Consequently, the results of discontinued operations only include the results of Ekibastuz GRES-1 LLP for the period ended 26 February 2010.

Maikuben West coal mine

On 17 May 2011 the Group sold the Maikuben West coal mine for a consideration of $3 million. Consequently, the results of discontinued operations include the results of Maikuben West coal mine for the prior year and the period ended 17 May 2011.

The results of the discontinued operations within Kazakhmys Power for the year are presented below:

$ million	2011	2010
Revenues	25	123
Cost of sales	(4)	(32)
Operating costs	(13)	(33)
Net finance costs	–	(1)
Impairment loss recognised on the remeasurement to fair value less costs to sell	–	(12)
Profit before tax from discontinued operation	8	45
Income taxes:		
Related to current year profit before taxation	(1)	(12)
	7	33
Loss on disposal of subsidiary (see note 5)	(20)	–
Gain on disposal of share in subsidiary (see note 4)	–	14
	(20)	14
(Loss)/profit for the year from discontinued operations	(13)	47

During 2010, when a sale and purchase agreement was signed with a prospective buyer for Maikuben West coal mine, the carrying value of the business was written down to its fair value less costs to sell, and an impairment charge of $12 million was recognised in the year ended 31 December 2010.

(ii) Balance sheet

As the business was sold on 17 May 2011, there are no assets and liabilities of the Maikuben West coal mine classified as held for sale as at 31 December 2011.

(iii) Cash flows

The net cash flows incurred by the discontinued operations within Kazakhmys Power are as follows:

$ million	2011	2010
Operating activities	–	58
Investing activities[1]	(7)	(123)
Financing activities	–	30
Net cash outflow	(7)	(35)

[1] The cash flows from investing activities included $107 million for the year ended 31 December 2010 related to the cash disposed in relation to the sale of 50% of Ekibastuz GRES-1 (see note 4) and $5 million for the year ended 31 December 2011 related to the cash disposed in relation to the sale of the Maikuben West coal mine (see note 5).

(c) Kazakhmys Petroleum

The sale of Kazakhmys Petroleum completed on 23 December 2011 and is therefore classified as a discontinued operation for the prior year and the period up to 23 December 2011.

6. Discontinued operations – continued

(i) Results of discontinued operation

The results of Kazakhmys Petroleum for the year are presented below:

$ million	2011	2010
Operating costs	(1)	(1)
Net finance costs	(3)	(1)
Impairment loss recognised on the remeasurement to fair value less costs to sell	(444)	–
Loss before tax from discontinued operation	(448)	(2)
Income taxes:		
Related to current year loss before taxation	1	1
	(447)	(1)
Loss on disposal of subsidiary (see note 5)	(24)	–
	(24)	–
Loss for the year from discontinued operation	(471)	(1)

During 2011, the carrying value of Kazakhmys Petroleum has been written down to its fair value less costs to sell resulting in an impairment charge of $444 million million being recognised in the year (note 5). No impairment losses were recognised in relation to Kazakhmys Petroleum during 2010.

(ii) Balance sheet

As the business was sold on 23 December 2011, there are no assets and liabilities of Kazakhmys Petroleum classified as held for sale as at 31 December 2011.

(iii) Cash flows

The net cash flows incurred by the discontinued operations within Kazakhmys Petroleum are as follows:

$ million	2011	2010
Operating activities	4	(1)
Investing activities	(28)	(37)
Financing activities	–	51
Net cash outflow	(24)	13

7. 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 four separate business units, as described 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'.

Following the restructuring undertaken by the Group during 2011, the Group's operating segments have changed from those previously reported as at 31 December 2010. Comparatives have been reclassified to align with the presentation for the period ending 31 December 2011. The operating segments of the Group are:

Kazakhmys Mining (previously Kazakhmys Copper)

The Kazakhmys Mining business is managed as one operating segment and comprises all entities and functions within the Group responsible for the exploration, evaluation, development, mining and processing of the Group's mineral resources and sale of the Group's metal products. The segment consists of:

- the Group's main operating entity, Kazakhmys LLC, whose principal activity is the mining and processing of copper and other metals which are produced as by-products;
- the Group's UK trading function, Kazakhmys Sales Limited, which is responsible for the purchase of exported products from Kazakhmys LLC and subsequently applies an appropriate mark-up prior to onward sale to third parties. The UK entity is a sales function on behalf of the Kazakhmys Mining business and consequently the assets and liabilities related to those trading operations, i.e. trade payables and trade receivables, are included within the Kazakhmys Mining operating segment;
- the Group's exploration companies which provide services for greenfield drilling on new projects and deposits, brownfield drilling on expansion projects and deposits at existing mines, and exploration work for potential new projects and deposits for the Mining segment;
- the Group's project companies, whose function is principally the development of metal production related assets on behalf of the Mining segment involving the evaluation and development of the Group's mining projects; and
- the Group's technical and ancillary services which provide technical, logistics and other services principally to the Mining segment and which are managed as an extension of the Mining segment.

The financial and operating information used by the Board of Directors for the purpose of resource allocation of all these separate functions and entities are included within the Mining segment.

Under the revised management and operating structure of the Group, Kazakhmys Gold, which was previously a separate segment, is now included within the Kazakhmys Mining segment. The Group's captive power stations, which supply power to the Kazakhmys Mining segment and also externally to domestic customers, have been transferred to the Kazakhmys Power segment as these are now under the management of Kazakhmys Power and are reported to the Board of Directors as part of the Kazakhmys Power segment.

MKM

MKM operates in Germany, where it manufactures copper and copper alloy semi-finished products. MKM faces different risks to the Group's other businesses, and produces different products, and is therefore shown as a separate operating segment.

As stated in note 6(a), the Directors have decided to dispose of MKM. As a result, at 31 December 2011 and 2010, MKM has been classified as a disposal group held for sale and as a discontinued operation.

Kazakhmys Power

Kazakhmys Power operates in Kazakhstan, and consists of the Group's captive power stations, the Ekibastuz GRES-1 coal-fired power station joint venture and the Maikuben West coal mine (up to the period ended 17 May 2011). The principal activity of the Kazakhmys Power operating segment is the sale of electricity and coal to external customers and internally to the Kazakhmys Mining segment. The captive power stations and the Group's 50% interest in the Ekibastuz GRES-1 coal-fired power station are managed by the same management team and produce discrete financial and operating information that is used by the Board of Directors for operational and resource allocation decisions.

Kazakhmys Petroleum

The Kazakhmys Petroleum business held a licence to conduct oil and gas exploration and development activity in the East Akzhar Exploration Block in western Kazakhstan.

As stated in note 6(c), the Group disposed of Kazakhmys Petroleum in December 2011, and as a result, it has been classified as a discontinued operation, and the comparative segment information has been restated accordingly.

Managing and measuring operating segments

The key performance measure of the operating segments is EBITDA (excluding 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 10).

The Group's Treasury department monitors finance income and finance costs at the Group level on a net basis rather than on a gross basis at an operating segment level.

The accounting policies adopted by each operating segment are consistent with those published in note 3. Inter-segment sales, which are transacted at cost, include power sales from Kazakhmys Power to Kazakhmys Mining from the Group's captive power stations, and coal sales from Kazakhmys Mining to the captive power stations within Kazakhmys Power from the Borly coal mine.

Segmental information is also provided in respect of revenues, by destination and by product. Segmental information relating to employees is provided in note 11.

7. Segment information – continued
(a) Operating segments
(i) Income statement information

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum[3]	Corporate Services	Total	Year ended 31 December 2011 Continuing operations Income statement	Joint venture[4]	Discontinued operations[1-3]
Revenues									
Segment sales	3,548	1,665	426	–	–	5,639			
Inter-segment sales	(49)	–	(104)	–	–	(153)			
Sales to external customers	3,499	1,665	322	–	–	5,486	3,563	233	1,690
Gross profit	1,929	86	178	–	–	2,193	1,944	142	107
Operating costs	(738)	(60)	(46)	(1)	(55)	(900)	(810)	(16)	(74)
Impairment losses	(9)	(9)	–	(444)	–	(462)	(9)	–	(453)
Share of profits from joint venture[5]	–	–	–	–	–	–	100	(100)	–
Segmental operating results	1,182	17	132	(445)	(55)	831	1,225	26	(420)
Loss on disposal of subsidiary	–	–	(20)	(24)	–	(44)	–	–	(44)
Segmental results	1,182	17	112	(469)	(55)	787	1,225	26	(464)
Share of profits from associate[5]						466	466	–	–
Net finance costs						(79)	(68)	–	(11)
Income tax expense						(244)	(221)	(26)	3
Profit for the year						930	1,402	–	(472)

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power includes the results of the Group's captive power stations (previously included within the Kazakhmys Copper segment), 50% of the results of Ekibastuz GRES-1 LLP as an equity accounted joint venture and the results of the Maikuben West coal mine for the period ended 17 May 2011 which was classified as an asset held for sale and is included within discontinued operations (see note 6(b)).
3 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).
4 For segment reporting, the Group includes its 50% share of the income statement line items that relate to Ekibastuz GRES-1 LLP on a line-by-line basis, whereas in the Group's income statement, the financial results of Ekibastuz GRES-1 LLP are included within 'share of profits from joint venture'. Note 21 provides further detail on the financial results of the joint venture.
5 Share of profits is net of tax.

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum[3]	Corporate Services	Total	Year ended 31 December 2010 Continuing operations Income statement	Joint venture[4]	Discontinued operations[1-3]
Revenues									
Segment sales	3,228	1,387	402	–	–	5,017			
Inter-segment sales	(37)	–	(95)	–	–	(132)			
Sales to external customers	3,191	1,387	307	–	–	4,885	3,237	138	1,510
Gross profit	1,816	134	170	–	–	2,120	1,818	77	225
Operating costs	(652)	(53)	(56)	(1)	(41)	(803)	(705)	(11)	(87)
Impairment losses	(14)	(58)	(12)	–	–	(84)	(14)	–	(70)
Share of profits from joint venture[5]	–	–	–	–	–	–	38	(38)	–
Segmental operating results	1,150	23	102	(1)	(41)	1,233	1,137	28	68
Gain on disposal of share in subsidiary	–	–	14	–	–	14	–	–	14
Segmental results	1,150	23	116	(1)	(41)	1,247	1,137	28	82
Share of profits from associate[5]						522	522	–	–
Net finance costs						(78)	(67)	(2)	(9)
Income tax expense						(241)	(203)	(26)	(12)
Profit for the year						1,450	1,389	–	61

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power includes the results of the Group's captive power stations (previously included within the Kazakhmys Copper segment), 100% of the results of Ekibastuz GRES-1 LLP for the period ended 26 February 2010 whilst the business was a subsidiary of the Group (which was classified as an asset held for sale and is included within discontinued operations), 50% of the results of Ekibastuz GRES-1 LLP from 27 February 2010 to 31 December 2010 as an equity accounted joint venture and the results of the Maikuben West coal mine for the year ended 31 December 2010 which was classified as an asset held for sale and is included within discontinued operations (see note 6(b)).
3 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).
4 For segment reporting, the Group includes its 50% share of the income statement line items that relate to Ekibastuz GRES-1 LLP on a line-by-line basis, whereas in the Group's income statement, the financial results of Ekibastuz GRES-1 LLP are included within 'share of profits from joint venture'. Note 21 provides further detail on the financial results of the joint venture.
5 Share of profits is net of tax.

(ii) Balance sheet information

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[1,2]
							At 31 December 2011	
Assets								
Tangible and intangible assets[3]	2,691	14	121	–	34	2,860	2,846	14
Intragroup investments	–	–	–	–	4,027	4,027	4,027	–
Non-current investments[4]	10	–	838	–	4,600	5,448	5,448	–
Operating assets[5]	1,061	209	41	–	199	1,510	1,301	209
Current investments	60	–	–	–	750	810	810	–
Cash and cash equivalents	262	9	4	–	836	1,111	1,102	9
Segment assets	4,084	232	1,004	–	10,446	15,766	15,534	232
Deferred tax asset						61	61	–
Income taxes reclaimable						71	71	–
Assets classified as held for sale						–	232	(232)
Elimination						(4,167)	(4,167)	–
Total assets						11,731	11,731	–
Liabilities								
Employee benefits and provisions	339	6	1	–	–	346	340	6
Operating liabilities[6]	595	18	–	–	44	657	639	18
Segment liabilities	934	24	1	–	44	1,003	979	24
Borrowings						2,014	1,893	121
Deferred tax liability						6	6	–
Income taxes payable						16	7	9
Liabilities directly associated with the assets classified as held for sale						–	154	(154)
Elimination						(140)	(140)	–
Total liabilities						2,899	2,899	–

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power represents the Group's captive power stations (previously included within the Kazakhmys Copper segment).
3 Tangible and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Mining, Kazakhmys Power and Kazakhmys Petroleum; (ii) Germany – MKM; and (iii) Kazakhmys Mining also includes $168 million in Kyrgyzstan and $nil in Tajikistan.
4 Non-current investments include the Group's investment in Ekibastuz GRES-1 LLP within the Kazakhmys Power segment and the Group's investment in ENRC within Corporate Services.
5 Operating assets include inventories, prepayments and other current assets and trade and other receivables.
6 Operating liabilities include trade and other payables and dividends payable by subsidiaries.

7. Segment information – continued

At 31 December 2010

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[1,2]
Assets								
Tangible and intangible assets[3]	2,276	–	122	564	38	3,000	2,979	21
Intragroup investments	–	–	–	–	5,835	5,835	5,835	–
Non-current investments[4]	9	–	742	–	4,356	5,107	5,107	–
Operating assets[5]	952	337	47	6	102	1,444	1,096	348
Current investments	56	–	–	–	300	356	356	–
Cash and cash equivalents	228	6	10	24	858	1,126	1,113	13
Segment assets	3,521	343	921	594	11,489	16,868	16,486	382
Deferred tax asset						9	9	–
Income taxes reclaimable						45	45	–
Assets classified as held for sale						–	382	(382)
Elimination						(5,927)	(5,927)	–
Total assets						10,995	10,995	–
Liabilities								
Employee benefits and provisions	172	5	4	30	–	211	203	8
Operating liabilities[6]	464	54	30	2	31	581	497	84
Segment liabilities	636	59	34	32	31	792	700	92
Borrowings						2,010	1,819	191
Deferred tax liability						23	16	7
Income taxes payable						43	33	10
Liabilities directly associated with assets classified as held for sale						–	300	(300)
Elimination						(92)	(92)	–
Total liabilities						2,776	2,776	–

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power includes the Group's captive power stations (previously included within the Kazakhmys Copper segment) and the Maikuben West coal mine which was classified as an asset held for sale and is included within discontinued operations (see note 6(b)).
3 Tangible and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Mining, Kazakhmys Power and Kazakhmys Petroleum; (ii) Germany – MKM; and (iii) Kazakhmys Mining also includes $124 million in Kyrgyzstan and $2 million in Tajikistan.
4 Non-current investments include the Group's investment in Ekibastuz GRES-1 LLP within the Kazakhmys Power segment and the Group's investment in ENRC within Corporate Services.
5 Operating assets include inventories, prepayments and other current assets and trade and other receivables.
6 Operating liabilities include trade and other payables and dividends payable by subsidiaries.

(iii) Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding special items [1]

$ million	Kazakhmys Mining	MKM[2]	Kazakhmys Power[3]	Kazakhmys Petroleum[4]	Corporate Services	Total	Year ended 31 December 2011 Continuing operations Subsidiaries	Joint venture[3,5]	Discontinued operations[2-4]
Operating profit/(loss) per income statement[5]	1,182	17	106	(445)	(55)	805	1,125	100	(420)
Interest and taxation of joint venture	–	–	26	–	–	26	–	26	–
Segmental operating profit/(loss)[5]	1,182	17	132	(445)	(55)	831	1,125	126	(420)
Special items:									
Add: additional disability benefit obligation charge – Kazakhmys Mining	146	–	–	–	–	146	146	–	–
Add: impairment charge against intangible assets – Kazakhmys Petroleum	–	–	–	444	–	444	–	–	444
Add: impairment charge against property, plant and equipment	11	1	–	–	–	12	11	–	1
Add: impairment reversal against mining assets	(7)	–	–	–	–	(7)	(7)	–	–
Add: impairment (reversal)/charge against inventories	(19)	8	–	–	–	(11)	(19)	–	8
Profit/(loss) before finance items and taxation (excluding special items)	1,313	26	132	(1)	(55)	1,415	1,256	126	33
Add: depreciation and depletion	212	–	44	–	5	261	233	28	–
Add: amortisation	3	–	–	–	–	3	3	–	–
Add: mineral extraction tax[6]	280	–	–	–	–	280	280	–	–
Segment EBITDA (excluding special items)	1,808	26	176	(1)	(50)	1,959	1,772	154	33
Share of EBITDA of associate[7]	–	–	–	–	966	966	–	–	–
Group EBITDA (excluding special items)	1,808	26	176	(1)	916	2,925	1,772	154	33

1 EBITDA excluding special items is defined as profit before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax, as adjusted for special items. Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business.

2 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).

3 Kazakhmys Power includes the Group's captive power stations (previously included within the Kazakhmys Copper segment), 50% of the results of Ekibastuz GRES-1 LLP as an equity accounted joint venture and the results of the Maikuben West coal mine for the period to 17 May 2011 which is included within discontinued operations (see note 6(b)).

4 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).

5 As the operating profit in the consolidated income statement includes the equity accounted profit from the joint venture, Ekibastuz GRES-1, on a post-interest and tax basis, the joint venture's interest and taxation expenses are added back to calculate the operating profit from continuing operations of the Group on a consistent pre-interest and tax basis.

6 Mineral extraction tax has been excluded from the key financial indicator of EBITDA as its exclusion provides a more informed measure of the operational performance of the Group as the Directors believe that MET is a substitute for a tax on profits.

7 The share of EBITDA of the associate excludes MET of the associate.

7. Segment information – continued

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum[3]	Corporate Services	Total	Year ended 31 December 2010 Continuing operations Subsidiaries	Joint venture[2,4]	Discontinued operations[1-3]
Operating profit/(loss) per income statement[4]	1,150	23	74	(1)	(41)	1,205	1,099	38	68
Interest and taxation of joint venture	–	–	28	–	–	28	–	28	–
Segmental operating profit/(loss)[4]	1,150	23	102	(1)	(41)	1,233	1,099	66	68
Special items:									
Add: impairment of property, plant and equipment	13	14	12	–	–	39	13	–	26
(Less)/add: impairment (reversal)/charge against inventories	(18)	44	–	–	–	26	(18)	–	44
Add: major social projects	130	–	–	–	–	130	130	–	–
Profit/(loss) before finance items and taxation (excluding special items)	1,275	81	114	(1)	(41)	1,428	1,224	66	138
Add: depreciation and depletion	222	–	38	–	5	265	245	20	–
Add: amortisation	3	–	–	–	–	3	3	–	–
Add: mineral extraction tax[5]	236	–	–	–	–	236	236	–	–
Segment EBITDA (excluding special items)	1,736	81	152	(1)	(36)	1,932	1,708	86	138
Share of EBITDA of associate[6]	–	–	–	–	903	903	–	–	–
Group EBITDA (excluding special items)	1,736	81	152	(1)	867	2,835	1,708	86	138

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see 6(a)).
2 Kazakhmys Power includes the results of the Group's captive power stations (previously included within the Kazakhmys Copper segment), 100% of the results of Ekibastuz GRES-1 LLP for the period ended 26 February 2010 whilst the business was a subsidiary of the Group, 50% of the results of Ekibastuz GRES-1 LLP from 27 February 2010 to 31 December 2010 as an equity accounted joint venture and the results of the Maikuben West coal mine for the year ended 31 December 2010 whilst it was classified as an asset held for sale and included within discontinued operations (see note 6(b)).
3 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).
4 As the operating profit in the consolidated income statement includes the equity accounted profit from the joint venture, Ekibastuz GRES-1, on a post-interest and tax basis, the joint venture's interest and taxation expenses are added back to calculate the operating profit from continuing operations of the Group on a consistent pre-interest and tax basis.
5 Mineral extraction tax has been excluded from the key financial indicator of EBITDA as its exclusion provides a more informed measure of the operational performance of the Group as the Directors believe that MET is a substitute for a tax on profits.
6 The share of EBITDA of the associate excludes MET of the associate.

(iv) Net liquid funds/(debt)

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	At 31 December 2011 Total	Continuing operations	Discontinued operations[1,2]
Cash and cash equivalents	262	9	4	–	836	1,111	1,102	9
Current investments	60	–	–	–	750	810	810	–
Borrowings[3]	(392)	(121)	–	–	(1,893)	(2,406)	(2,285)	(121)
Inter-segment borrowings[4]	392	–	–	–	–	392	392	–
Net liquid funds/(debt)	322	(112)	4	–	(307)	(93)	19	(112)

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power represents the Group's captive power stations (previously included within the Kazakhmys Copper segment).
3 Borrowings of Corporate Services are presented net of capitalised arrangement fees of $21 million.
4 Borrowings of Corporate Services include amounts lent to the Kazakhmys Mining segment.

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum	Corporate Services	Total	Continuing operations	Discontinued operations[1,2]
								At 31 December 2010
Cash and cash equivalents	228	6	10	24	858	1,126	1,113	13
Current investments	56	–	–	–	300	356	356	–
Borrowings[3]	(147)	(191)	–	–	(1,819)	(2,157)	(1,966)	(191)
Inter-segment borrowings[4]	147	–	–	–	–	147	147	–
Net liquid funds/(debt)	284	(185)	10	24	(661)	(528)	(350)	(178)

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power includes the Group's captive power stations (previously included within the Kazakhmys Copper segment) and the Maikuben West coal mine which was classified as an asset held for sale and is included within discontinued operations (see note 6(b)).
3 Borrowings of Corporate Services are presented net of capitalised arrangement fees of $18 million.
4 Borrowings of Corporate Services include amounts lent to the Kazakhmys Mining segment.

(v) Capital expenditure, depreciation and impairment losses

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum[3]	Corporate Services	Total	Continuing operations	Discontinued operations[1-3]
								Year ended 31 December 2011
Property, plant and equipment	550	16	40	20	1	627	588	39
Mining assets	121	–	–	–	–	121	121	–
Intangible assets	8	–	–	–	–	8	8	–
Capital expenditure[4]	679	16	40	20	1	756	717	39
Depreciation and depletion	212	–	16	–	5	233	233	–
Amortisation	3	–	–	–	–	3	3	–
Depreciation, depletion and amortisation	215	–	16	–	5	236	236	–
Impairment losses	9	9	–	444	–	462	9	453

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6(a)).
2 Kazakhmys Power includes the Group's captive power stations (previously included in the Kazakhmys Copper segment) and the results of the Maikuben West coal mine for the period ended 17 May 2011 which is included within discontinued operations (see note 6(b)).
3 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).
4 Capital expenditure within the Kazakhmys Mining segment includes capitalised depreciation of $6 million and $3 million for property, plant and equipment and mining assets, respectively. In addition during the year, Kazakhmys Mining capitalised borrowing costs of $28 million to property, plant and equipment. Also during the year, the site restoration and clean up provisions within Kazakhmys Mining were reassessed and as a result, an additional $4 million has been recognised with a corresponding adjustment to property, plant and equipment. These amounts are non-cash items and are recorded within site restoration and clean up provisions.

$ million	Kazakhmys Mining	MKM[1]	Kazakhmys Power[2]	Kazakhmys Petroleum[3]	Corporate Services	Total	Continuing operations	Discontinued operations[1-3]
								Year ended 31 December 2010
Property, plant and equipment	505	14	35	33	24	611	548	63
Mining assets	141	–	–	–	–	141	141	–
Intangible assets	4	–	–	4	–	8	4	4
Capital expenditure[4]	650	14	35	37	24	760	693	67
Depreciation and depletion	222	–	18	–	5	245	245	–
Amortisation	3	–	–	–	–	3	3	–
Depreciation, depletion and amortisation	225	–	18	–	5	248	248	–
Impairment losses	14	58	12	–	–	84	14	70

1 MKM has been classified as an asset held for sale and is included within discontinued operations (see note 6 (a)).
2 Kazakhmys Power includes the results of the Group's captive power stations (previously included within the Kazakhmys Copper segment), 100% of the results of Ekibastuz GRES-1 LLP for the period ended 26 February 2010 whilst the business was a subsidiary of the Group (which was classified as an asset held for sale and is included within discontinued operations), and the results of the Maikuben West coal mine for the year ended 31 December 2010 which was classified as an asset held for sale and is included within discontinued operations (see note 6(b)).
3 Kazakhmys Petroleum was sold in December 2011 and is therefore included within discontinued operations (see note 6(c)).
4 Capital expenditure within the Kazakhmys Mining segment includes capitalised depreciation of $10 million and $3 million for property, plant and equipment and mining assets, respectively. In addition during the year, Kazakhmys Mining capitalised borrowing costs of $6 million to mining assets. Capital expenditure on intangible assets within the Kazakhmys Petroleum segment includes $4 million capitalised in respect of contractual reimbursements to the Government for geological information and social commitments. Also during the year, the site restoration and clean up provisions within Kazakhmys Mining were reassessed and as a result an additional $11 million has been recognised with a corresponding adjustment to property, plant and equipment. These amounts are non-cash items and are recorded within site restoration and clean up provisions.

7. Segment information – continued

(b) Segmental information in respect of revenues

Revenues by product are as follows:

$ million	2011	2010
Kazakhmys Mining		
Copper cathodes	2,318	2,110
Copper rods	252	274
Total copper products	2,570	2,384
Silver	479	271
Gold bullion	79	164
Gold doré	54	55
Zinc metal in concentrate	177	193
Other by-products	93	82
Other revenue	47	42
	3,499	3,191
MKM		
Wire	577	500
Sheets and strips	695	560
Tubes and bars	360	293
Metal trade	33	34
	1,665	1,387
Kazakhmys Power[1]		
Electricity generation	297	248
Coal	25	59
	322	307
Total revenues	5,486	4,885
Continuing operations	3,563	3,237
Discontinued operations	1,690	1,510
Share of joint venture's revenues – Kazakhmys Power	233	138
Total revenues	5,486	4,885

[1] Kazakhmys Power revenues include 100% of the revenues of Ekibastuz GRES-1 LLP for the period ended 26 February 2010 whilst the business was a subsidiary of the Group. For the period from 27 February 2010 to 31 December 2010 and for the year ended 31 December 2011, 50% of the revenues of Ekibastuz GRES-1 LLP are included in the share of joint venture's revenues. In addition, Kazakhmys Power revenues include the external revenues of the Group's captive power stations for the years ended 31 December 2011 and 2010. The revenues of the Maikuben West coal mine are included for the period ended 17 May 2011.

Revenues by destination to third parties are as follows:

$ million	2011	2010
Continuing operations		
Europe	1,454	1,330
China	1,698	1,567
Kazakhstan	343	329
Other	68	11
	3,563	3,237
Discontinued operations		
Europe	1,325	1,138
China	16	9
Kazakhstan	25	123
Other	324	240
	1,690	1,510
Share of joint venture's revenues		
Kazakhstan	210	116
Other	23	22
	233	138
Total revenues	5,486	4,885

Year ended 31 December 2011
Four customers, three of which are collectively under common control, within the Kazakhmys Mining segment represent 45% of total Group revenue for the year from continuing operations. The total revenue from these customers is $1,600 million. The revenue from the three customers under common control of $1,207 million represents 34% of the total Group revenue from continuing operations. Revenues from the fourth major customer of $393 million represent 11% of total Group revenue from continuing operations.

Year ended 31 December 2010
Three customers collectively under common control within the Kazakhmys Mining segment represent 27% of total Group revenue for the year from continuing operations. The total revenue from these customers is $890 million. The revenue from one of these customers individually represents 14% of total Group revenue from continuing operations.

8. Cost of sales, selling and distribution expenses, administrative expenses and operating income/expenses

The following tables analyse the major components of cost of sales, selling and distribution expenses, administrative expenses and operating income/expenses:

(a) Cost of sales

$ million	2011	2010
Raw materials	504	403
Employee salaries and payroll taxes	354	267
Depreciation, depletion and amortisation	187	205
Production overheads	318	250
Mineral extraction tax	280	236
Other taxes	43	64
Utilities	49	38
Change in work in progress and finished goods	(116)	(44)
Continuing operations	1,619	1,419
Discontinued operations	1,583	1,285
	3,202	2,704

(b) Selling and distribution expenses

$ million	2011	2010
Transportation expenses	30	28
Port charges	20	16
Employee salaries and payroll taxes	3	3
Raw materials	2	2
Other	9	6
Continuing operations	64	55
Discontinued operations	54	68
	118	123

(c) Administrative expenses

$ million	2011	2010
Employee salaries and payroll taxes	190	148
Personal injury claims	165	22
Legal and professional	87	81
Social responsibility costs	78	206
Levies and charges	52	39
Transportation	49	43
Depreciation and amortisation	38	34
Business travel	23	18
Medical and social support	22	21
Supplies	14	11
Utilities	13	22
Communication	5	4
Bank fees	2	1
Other	13	7
Continuing operations	751	657
Discontinued operations	25	25
	776	682

8. Cost of sales, selling and distribution expenses, administrative expenses and operating income/expenses – continued

(d) Other operating income

$ million	2011	2010
Supplies	13	9
Sanatorium, medical and canteen	9	8
Utilities	4	3
Railway services	4	4
Lease income	13	11
Other	10	9
Continuing operations	53	44
Discontinued operations	5	7
	58	51

(e) Other operating expenses

$ million	2011	2010
Supplies	16	12
Sanatorium, medical and canteen	7	7
Utilities	4	3
Railway services	3	3
Depreciation of leased assets	11	9
Other	7	3
Continuing operations	48	37
Discontinued operations	–	1
	48	38

9. Impairment losses

$ million	2011	2010
Impairment charge against property, plant and equipment – note 9(a)	11	13
Impairment reversal against mining assets – note 9(b)	(7)	–
Provisions released against inventories – notes 9(c) and 9(f)	(1)	(3)
Provisions released against prepayments and other current assets	–	(3)
Provisions raised against trade and other receivables – note 9(d)	6	7
Continuing operations	9	14
Discontinued operations – notes 9(e)	453	70
	462	84

Year ended 31 December 2011

(a) Kazakhmys Mining – property, plant and equipment

In 2011, the impairment charge mainly relates to an impairment provision of $12 million which has been recognised to write down administrative land and buildings held for disposal to fair value less costs to sell.

(b) Kazakhmys Mining – mining assets

The $7 million credit in 2011 mainly relates to a reversal of impairment provisions held against certain mining assets which were considered to be uneconomical in prior years and which are now being actively prepared for future extraction due to higher commodity prices.

(c) Kazakhmys Mining – inventories

Included within the provisions against inventories is an impairment charge of $18 million relating to general slow moving and obsolete inventory, which has been offset by the reversal of a previous impairment provision of $19 million held against certain by-products for which sales contracts have been agreed at prices greater than the previously recognised net realisable value.

(d) Kazakhmys Mining – trade and other receivables

Provisions against trade and other receivables include an amount of $6 million (2010: $7 million) within Kazakhmys Mining in respect of trust activities. Under the terms of its subsoil licences, Kazakhmys LLC is required to provide certain social services to the communities in which its mining activities operate. These trust activities are provided by municipal authority companies under trust management agreements. For most receivable balances due from municipal authorities, full provision is recognised in light of their past payment histories.

(e) Discontinued operations

Impairment losses within discontinued operations relate to the impairment of MKM of $9 million (2010: $58 million), the Maikuben West coal mine of $nil (2010: $12 million) and Kazakhmys Petroleum of $444 million (2010: $nil) – see notes 6(a), 6(b) and 6(c) respectively.

Year ended 31 December 2010

(f) Kazakhmys Mining – inventories

Included within the provisions against inventories is an impairment charge of $15 million relating to general slow moving inventory, and the reversal of a previous impairment provision held against certain stockpiled ore of $18 million. In 2008, it was envisaged that the stockpiled ore would not be processed in the future as this would have been uneconomic at the prevailing commodity prices, however during 2010 certain of these stockpiles were processed and the previous impairment reversed.

10. 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	2011	2010
Continuing operations		
Special items within operating profit:		
Additional death and disability benefits obligation charges arising from new legislation enacted in Kazakhstan[1]	146	–
Impairment charge against property, plant and equipment	11	13
Impairment reversal against mining assets	(7)	–
Provisions released against inventories	(19)	(18)
Major social projects[2]	–	130
	131	125
Special items within Underlying Profit:		
Subsidiary businesses		
Change in deferred tax liabilities:		
Deferred tax asset on additional death and disability benefits obligation	(29)	–
Deferred tax asset on major social projects	(26)	–
Release of deferred withholding tax liability	–	(98)
Change in tax rates in Kazakhstan	–	16
Associate		
Gain on acquisition of joint venture by associate	–	(77)
Acquisition related transaction (credit)/costs	(1)	19
Change in tax rates in Kazakhstan	–	12
	(56)	(128)
Discontinued operations		
Special items within operating profit:		
Impairment charge against intangible assets – Kazakhmys Petroleum	444	–
Impairment charge against property, plant and equipment – MKM	1	26
Provisions against inventories – MKM	8	44
Special items within Underlying Profit:		
Loss on disposal of subsidiaries – note 5	44	–
Gain on disposal of share in subsidiary – note 4	–	(14)
Release of deferred tax liabilities resulting from the impairment of MKM	(2)	(12)
	495	44

1 During 2011, new legislation was enacted in Kazakhstan which increased the level of death and disability benefits payable to former and current disabled employees of the Group. The enhancement in the level of death and disability benefits payable has resulted in an additional provision being recognised in the Group's defined benefit obligation (see note 31).

2 In 2010, the Group committed to construct and develop major social projects at a cost of $130 million in Kazakhstan. The charge represents the full cost of the projects, with construction expected to take up to two years.

11. Employee information

$ million	2011	2010
Wages and salaries	531	410
Social security costs	56	47
Post-employment benefits – note 31	158	10
Continuing operations	745	467
Discontinued operations	66	71
	811	538

Other non-monetary employee benefits (including sanatorium visits, medical services, nourishment and treatment expenses) are also provided by Kazakhmys LLC, and are included in the income statement in the expense line relating to the nature of the cost.

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

	2011	2010
Kazakhmys Mining		
Mining	16,473	15,675
Concentration	5,961	5,739
Smelting	5,905	5,838
Maintenance and auxiliary services	17,638	16,809
Construction	2,332	3,114
Administration, social sphere and other	7,067	7,490
	55,376	54,665
MKM[1]		
Production	704	697
Maintenance and auxiliary services	215	214
Administration and other	180	161
	1,099	1,072
Kazakhmys Power[2]		
Production	3,153	3,389
Maintenance and auxiliary services	212	708
Administration and other	526	670
	3,891	4,767
Kazakhmys Petroleum[3]		
Production	115	108
Administration and other	20	17
	135	125
Corporate Services		
Administration and other	318	341
	318	341
Total employees	60,819	60,970

1 MKM is included within discontinued operations for the full year (see note 6(a)).
2 Kazakhmys Power includes the employees of the Group's captive power stations (previously included within the Kazakhmys Copper segment) and 100% of the employees of Ekibastuz GRES-1 LLP for the period ended 26 February 2010 whilst the business was a subsidiary of the Group (for the period after 26 February 2010 whilst Ekibastuz GRES-1 is treated as an equity accounted joint venture, its employees are not included in the analysis above). The employees of the Maikuben West coal mine are only included for the period ended 17 May 2011, the date on which it was sold (see note 6(b)).
3 The employees of Kazakhmys Petroleum are only included for the period ended 23 December 2011, the date on which it was sold (see note 6(c)).

Analysed as:

	2011	2010
Central Asia[1]	59,666	59,844
Germany	1,099	1,072
UK	48	48
Netherlands	2	2
China	4	4
	60,819	60,970

1 Includes Kazakhstan and Kyrgyzstan.

The average weekly number of employees during the year within continuing operations is 59,249 (2010: 58,613) and 1,570 (2010: 2,357) within discontinued operations.

12. Key management personnel

In accordance with IAS 24 'Related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel of the Group during the year ended 31 December 2011 are deemed to be the Directors of the Company and the Chief Financial Officer, the Chief Operating Officer, Head of Projects, Head of Human Resources and Head of the Commercial Division. For the year ended 31 December 2010, prior to his appointment to the Group's Board of Directors, the Chief Executive Officer of Kazakhmys LLC was also deemed to be key management of the Group.

Compensation for key management personnel (including Directors) comprises the following:

$ million	2011	2010
Salaries	8.9	6.4
Annual bonuses	4.8	4.1
Share awards	2.6	1.8
Benefits	0.8	0.1
	17.1	12.4

Disclosures on Directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report and form part of these consolidated financial statements.

13. Auditor's remuneration

The auditor's remuneration for services provided to the Group during the year ended 31 December 2011 was $3.4 million (2010: $3.5 million), comprised as follows:

$ million	2011	2010
Audit and audit related services:		
Fees payable to the Company's auditor for the audit of the Company's Annual Report and Accounts	0.8	0.7
Fees payable to the Company's auditor and their associates for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	1.6	1.6
– the review of the Company's half yearly financial report pursuant to legislation	0.4	0.4
– regulatory reporting services pursuant to legislation	0.1	0.2
	2.9	2.9
Other services:		
– services relating to corporate finance transactions	0.5	0.6
Total remuneration	3.4	3.5

Other services relating to corporate finance transactions of $0.5 million (2010: $0.6 million) are payable to Ernst & Young LLP for services provided in connection with the Group's secondary listing on the Hong Kong Stock Exchange.

14. Finance income and finance costs

$ million	2011	2010
Finance income		
Interest income	8	8
Foreign exchange gains	61	82
Finance income attributable to continuing operations	69	90
Interest income	–	1
Foreign exchange gains	14	16
Finance income attributable to discontinued operations	14	17
	83	107
Finance costs		
Interest expense	(42)	(47)
Interest on employee obligations	(14)	(4)
Unwinding of discount on provisions	(7)	(6)
Finance costs before foreign exchange losses	(63)	(57)
Foreign exchange losses	(74)	(100)
Finance costs attributable to continuing operations	(137)	(157)
Interest expense	(9)	(9)
Unwinding of discount on provisions	(1)	(2)
Foreign exchange losses	(15)	(15)
Finance costs attributable to discontinued operations	(25)	(26)
	(162)	(183)

15. Income taxes

(a) Income statement

Major components of income tax expense for the years presented are:

$ million	2011	2010
Current income tax		
Corporate income tax – current period (UK)	21	26
Corporate income tax – current period (overseas)	298	292
Corporate income tax – prior periods	(10)	(25)
Excess profits tax – prior periods	(21)	–
Deferred income tax		
Corporate income tax – current period temporary differences	(67)	(90)
Income tax expense attributable to continuing operations	221	203
Current income tax attributable to discontinued operations	3	9
Deferred income tax attributable to discontinued operations	(6)	3
Income tax (credit)/expense attributable to discontinued operations	(3)	12
Total income tax expense	218	215

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 Group's effective income tax rate is as follows:

$ million	2011	2010
Profit before taxation from continuing operations	1,623	1,592
At UK statutory income tax rate of 26.5% (2010: 28.0%)[1]	430	446
Tax effect of share of profits from joint venture	(27)	(11)
Tax effect of share of profits from associate	(123)	(146)
Overprovided in previous years – current income tax	(10)	(25)
Unrecognised tax losses	–	(5)
Effect of domestic tax rates applicable to individual Group entities	(66)	(76)
Effect of changes in future tax rates	–	16
Reversal of withholding tax on unremitted overseas earnings	–	(98)
Release of excess profits tax provision	(21)	–
Deferred tax asset recognised on major social projects	(26)	–
Non deductible items:		
Transfer pricing	26	22
Non deductible interest	–	6
Other non deductible expenses	38	74
Income tax expense attributable to continuing operations	221	203
Income tax attributable to discontinued operations	(3)	12
Total income tax expense	218	215

1 The UK statutory income tax rate for January to March 2011 was 28.0% and for April to December 2011 was 26.0%, giving a weighted average full year rate of 26.5%.

Corporate income tax is calculated at 26.5% (2010: 28.0%) of the assessable profit for the year for the Company and its UK subsidiaries and 20.0% for the operating subsidiaries in Kazakhstan (2010: 20.0%). MKM, which is included as part of discontinued operations, has a tax rate of 28.5% (2010: 28.5%) which relates to German corporate income tax and trade tax.

The effective tax rate for continuing operations for 2011 is 13.6% (2010: 12.8%).

Kazakhstan corporate income tax ("CIT")

In 2010, new tax legislation was implemented such that the phased reduction in CIT, enacted in 2009, was removed and a flat rate of 20% would be maintained for future years.

Future tax charges are affected by the mix of profits and tax jurisdictions in which the Group operates. The lower CIT rate in Kazakhstan and the recognition of equity accounted earnings of ENRC and Ekibastuz GRES-1 on a post-tax basis will have the effect of significantly lowering the Group's overall future effective tax rate below the UK statutory corporate tax rate of 26%.

The following factors impact the Group's effective tax rate for the year ended 31 December 2011:

Transfer pricing

In June 2010, amendments to Kazakhstan's transfer pricing legislation were passed into law and were made largely retrospective from 1 January 2009. Under the new legislation, there is greater certainty over the use of LME and LBMA prices as the basis of market prices, quotation periods to be used for the sale and purchase of traded commodities and the acceptability of discounts with reference to LME/LBMA prices when transacting in traded commodities. Following the amendments to the transfer pricing legislation, the Group amended the intercompany sale and purchase contracts between the UK and Kazakhstan to largely reflect the amended legislation. Notwithstanding the revised intercompany sale and purchase contracts that were put in place and the amendments to the transfer pricing legislation, inconsistency still arises between the transfer pricing requirements in Kazakhstan and the UK. Consequently, certain of the Group's profits are taxed in both jurisdictions which places upward pressure on the Group's effective tax rate.

In addition, during 2010 and 2011, certain sales contracts entered into by Kazakhmys LLC with European and Russian customers included discounts applied to LME prices and quotation periods that were not fully acceptable under the amended Kazakhstan transfer pricing legislation and consequently, a provision was recognised of $3 million based on this anticipated exposure at 31 December 2011 (2010: $9 million).

Non-deductible expenses
Included within non-deductible expenses are the additional tax assessments and related fines and penalties, resulting from the completion of the tax audit conducted at Kazakhmys LLC for the years 2006 to 2008 inclusive in August 2011. As a result, the Directors have made a provision for these additional tax assessments, which represents the Directors' best estimate of the amounts that are expected to be paid to settle this potential liability. The reversal of the provision for fines and penalties of $28 million relating to the release of the provision for excess profits tax (refer below) is non-taxable and offsets the upward pressure on the Group's effective tax rate arising from the non-deductible items relating to the tax audit. Other non-deductible items relate to on-going business expenses and impairment losses at Kazakhmys Mining.

Excess profits taxation
In August 2011, the tax authorities completed the audit of Kazakhmys LLC for the years 2006 and 2008 inclusive, with no additional claims being raised in respect of excess profits taxation (EPT). Subsequently, in October 2011 the Supreme Court of Kazakhstan issued a ruling that Kazakhmys LLC should not have been liable for excess profits tax in the periods up to and including 2008. As a result of the completed tax audit, which confirmed the EPT methodology adopted by the company for the years 2006 to 2008, together with a previous tax audit (for the years 2003 to 2005), along with the Supreme Court's ruling, the Directors believe that no further obligations exist in respect of EPT for the years 2003 to 2008. As a result, the EPT provision of $21 million recognised in earlier years relating to the uncertainties over the judgements that were made in respect of Kazakhmys LLC's methodology of computing EPT in the periods up to and including 2008 has been released at 31 December 2011. The total EPT provision recognised as at 31 December 2010 was $49 million, including $28 million related to fines and penalties.

Deferred tax asset on major social projects
In 2011, the Group determined that the cost of constructing the major social projects in Kazakhstan will be deductible against taxable profits in the future as a result of amendments in the tax legislation which were introduced in January 2011. The introduction of these amendments has resulted in the recognition of a $26 million deferred tax asset at 31 December 2011.

Equity accounting
The Group's interest in the earnings of ENRC and Ekibastuz GRES-1 LLP is included, net of tax, in the consolidated income statement in arriving at profit before taxation, thereby reducing the Group's effective tax rate.

The following additional factors impacted the Group's effective tax rate for the year ended 31 December 2010 only:

Non-deductible expenses
Included within non-deductible expenses are amounts of $39 million in respect of social expenditure incurred within Kazakhmys LLC that were in excess of the threshold allowable for tax deductibility under Kazakhstan tax legislation.

Non-deductible interest
The non-deductible interest of $6 million relates to interest on intercompany borrowings between the UK and Kazakhstan which are not deductible under UK tax legislation.

Unremitted overseas earnings
Prior to August 2010, it was intended that unremitted earnings amounting to $1,463 million would be distributed from Kazakhmys LLC by way of dividend payments to settle an intercompany loan balance existing between Kazakhmys LLC and a UK subsidiary of the Group. Following the completion of an internal restructuring programme at the end of August 2010, it was no longer expected that unremitted earnings within Kazakhmys LLC would be distributed by way of dividend as the intercompany loan balance was settled by alternative consideration. Consequently, the withholding tax provision of $98 million previously recognised as at 31 December 2009 relating to the payment of dividends from Kazakhmys LLC, which were to be used as settlement of the intercompany loan, was released.

(b) Recognised deferred tax assets and liabilities

The amounts of deferred taxation assets/(liabilities) provided in the financial statements are as follows:

$ million	As at 1 January 2011	Continuing operations	Disposal of subsidiary	As at 31 December 2011
Intangible assets	(6)	(1)	–	(7)
Property, plant and equipment	(77)	(2)	–	(79)
Mining assets	–	6	–	6
Trade and other receivables	8	4	–	12
Provisions and employee benefits	16	36	(5)	47
Trade and other payables	27	29	–	56
Tax losses	25	(5)	–	20
Deferred tax asset, net	(7)	67	(5)	55
Analysed as:				
Deferred tax asset	9	52	–	61
Deferred tax liability	(16)	15	(5)	(6)

15. Income taxes – continued

$ million	As at 1 January 2010	Continuing operations	Net exchange translation	As at 31 December 2010
Intangible assets	(6)	–	–	(6)
Property, plant and equipment	(58)	(20)	1	(77)
Mining assets	1	(1)	–	–
Inventories	9	(9)	–	–
Trade and other receivables	7	1	–	8
Provisions	18	(3)	1	16
Trade and other payables	14	13	–	27
Tax losses	14	11	–	25
Unremitted overseas earnings	(98)	98	–	–
Deferred tax liability, net	(99)	90	2	(7)
Analysed as:				
Deferred tax asset	–	9	–	9
Deferred tax liability	(99)	81	2	(16)

(c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the accounts are as follows:

$ million	2011 Temporary difference	2011 Deferred tax asset	2010 Temporary difference	2010 Deferred tax asset
Continuing operations: Kazakhstan – tax losses				
Losses carried forward	6	1	4	1
Discontinued operations: Germany – tax losses				
Corporate income tax	137	39	102	29
Trade tax	85	24	67	19
Total losses carried forward	222	63	169	48

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

(i) Kazakhstan

At 31 December 2011, Kazakhmys LLC has corporate income tax losses on certain subsoil use contracts that can be carried forward and used against future taxable profits arising from those subsoil use contracts. Under Kazakhstan tax legislation, tax losses from loss making subsoil use contracts may not be offset against the taxable profits of profitable subsoil use contracts. Kazakhmys LLC expects that certain subsoil use contracts will be in a tax loss making position for the foreseeable future and will have no taxable profits against which the losses can be offset. Therefore, no deferred tax asset has been recognised in respect of the tax losses associated with these subsoil use contracts. Tax losses arising from subsoil use contracts that are expected to be profitable in the future have been recognised as deferred tax assets.

(ii) Germany

MKM has corporate income tax losses that can be carried forward and used against future taxable profits, subject to restrictions set out under German tax legislation. There is no time restriction over the utilisation of tax losses. Due to the past history of tax losses, there is insufficient certainty that a taxable profit will arise against which the losses can be offset. For these reasons, no deferred tax asset has been recognised.

(d) Unrecognised deferred tax liability

The Group has not recognised all of the deferred tax liability in respect of the distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

The gross temporary differences in respect of the undistributed reserves of the Group's subsidiaries, as shown in their statutory accounts prepared in accordance with applicable accounting standards, are as follows:

$ million	2011	2010
Undistributed reserves of subsidiaries	5,986	5,771

16. Earnings per share

(a) Basic and diluted EPS

Basic EPS is calculated by dividing profit for the year attributable to owners of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. Purchases of the Company's shares by the Employee Benefit Trust and by the Company under the share buy-back programme are held in treasury and treated as own shares.

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

$ million	2011	2010
Net profit attributable to equity holders of the Company from continuing operations	1,402	1,389
Net (loss)/profit attributable to equity holders of the Company from discontinued operations	(472)	61
	930	1,450

Number	2011	2010
Weighted average number of ordinary shares of 20 pence each for EPS calculation	533,794,387	534,730,387
EPS – basic and diluted ($)		
From continuing operations	2.63	2.60
From discontinued operations	(0.88)	0.11
	1.75	2.71

(b) EPS based on Underlying Profit

The Group's Underlying Profit is the profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and non-controlling interest effects, as shown in the table below. EPS based on Underlying Profit is calculated by dividing Underlying Profit by the number of ordinary shares of 20 pence each outstanding during the year. The Directors believe EPS based on Underlying Profit provides a more consistent measure for comparing the underlying trading performance of the Group.

16. Earnings per share – continued

The following shows the reconciliation of Underlying Profit from the reported profit and the share data used in the computations for EPS based on Underlying Profit:

$ million	2011	2010
Net profit attributable to equity holders of the Company from continuing operations	1,402	1,389
Special items:		
Subsidiary businesses		
Additional death and disability benefits obligation charges arising from new legislation enacted in Kazakhstan	146	–
Impairment charge against property, plant and equipment	11	13
Impairment reversal against mining assets	(7)	–
Provisions released against inventories	(19)	(18)
Major social projects	–	130
Associate		
Gain related to acquisition of joint venture	–	(77)
Acquisition related transaction (credit)/costs	(1)	19
Tax effect of non-recurring items		
Subsidiary businesses	(2)	(2)
Associate	–	–
Change in current and deferred tax liabilities:		
Deferred tax asset on additional death and disability benefits obligation	(29)	–
Deferred tax asset on major social projects	(26)	–
Release of deferred withholding tax liability	–	(98)
Change in tax rates in Kazakhstan:		
Subsidiary businesses	–	16
Associate	–	12
Underlying Profit from continuing operations	1,475	1,384
Net (loss)/profit attributable to equity holders of the Company from discontinued operations	(472)	61
Special items:		
Impairment charge against intangible assets – Kazakhmys Petroleum	444	–
Impairment charge against property, plant and equipment – MKM	1	26
Provisions against inventories – MKM	8	44
Loss on disposal of subsidiaries	44	–
Gain on disposal of share in subsidiary	–	(14)
Release of deferred tax liabilities resulting from the impairment of MKM	(2)	(12)
Underlying Profit from discontinued operations	23	105
Total Underlying Profit	1,498	1,489

Number	2011	2010
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation	533,794,387	534,730,387
EPS based on Underlying Profit – basic and diluted ($)		
From continuing operations	2.76	2.59
From discontinued operations	0.04	0.20
	2.80	2.79

17. Dividends paid and proposed

(a) Dividends paid

The dividends paid during the year ended 31 December 2010 and 2011 are as follows:

	Per share US cents	Amount $ million
Year ended 31 December 2011		
Final dividend in respect of year ended 31 December 2010	16.0	86
Interim dividend in respect of year ended 31 December 2011	8.0	43
	24.0	129
Year ended 31 December 2010		
Final dividend in respect of year ended 31 December 2009	9.0	48
Interim dividend in respect of year ended 31 December 2010	6.0	32
	15.0	80

(i) Year ended 31 December 2011

On 17 May 2011, the Company paid the final dividend of $86 million in respect of the year ended 31 December 2010 to shareholders on the register as at 26 April 2011.

On 4 October 2011, the Company paid an interim dividend of $43 million in respect of the year ended 31 December 2011 to shareholders on the register as at 9 September 2011.

(ii) Year ended 31 December 2010

On 18 May 2010, the Company paid the final dividend of $48 million in respect of the year ended 31 December 2009 to shareholders on the register as at 23 April 2010.

On 5 October 2010, the Company paid an interim dividend of $32 million in respect of the year ended 31 December 2010 to shareholders on the register as at 8 September 2010.

(b) Dividends declared after the balance sheet date

	Per share US cents	Amount $ million
Proposed by the Directors on 29 February 2012 (not recognised as a liability as at 31 December 2011):		
Final dividend in respect of the year ended 31 December 2011	20.0	106

18. Intangible assets

$ million	Licences	Other	Total
Cost			
At 1 January 2010	498	24	522
Additions	4	4	8
Disposals	(8)	(1)	(9)
Net exchange adjustment	1	–	1
At 31 December 2010	495	27	522
Additions	–	8	8
Disposals	(6)	–	(6)
Disposal of subsidiary	(451)	–	(451)
Net exchange adjustment	(3)	(1)	(4)
At 31 December 2011	35	34	69
Amortisation			
At 1 January 2010	6	6	12
Amortisation charge	1	2	3
Disposals	(1)	(1)	(2)
At 31 December 2010	6	7	13
Amortisation charge	1	2	3
Impairment	444	–	444
Disposal of subsidiary	(444)	–	(444)
At 31 December 2011	7	9	16
Net book value			
At 31 December 2011	28	25	53
At 31 December 2010	489	20	509

18. Intangible assets – continued

(a) Impairment

Following drilling results received at the end of June 2011, and the receipt of an offer to purchase the Kazakhmys Petroleum business in July 2011, the Directors performed an impairment review of Kazakhmys Petroleum. The total consideration receivable from the disposal of $119 million, comprising $100 million in cash and $19 million reimbursement of the cash on the balance sheet of Kazakhmys Petroleum at the date the sale and purchase agreement was signed, has been used to determine the recoverable amount, resulting in a $444 million impairment charge being recognised. The sale and purchase agreement was signed on 24 August 2011 and the sale completed on 23 December 2011. In determining the consideration receivable, no value has been assigned to the contingent consideration given the inherent uncertainties in oil exploration and the adverse drilling results which led to the asset's impairment.

(b) Non-cash transactions

During the year ended 31 December 2011, no licences were acquired within Kazakhmys Mining (2010: $4 million within Kazakhmys Petroleum) which were capitalised by the Group in respect of contractual reimbursements to the Government for geological information and social commitments. This amount is a non-cash item and is recorded within provisions for payments of licences. In addition during the year, the provisions for licenses within Kazakhmys Petroleum were reassessed and as a result, $6 million (2010: $7 million within Kazakhmys Mining) of the provision was de-recognised with a corresponding adjustment to intangible assets. This amount is a non-cash item.

(c) Other

The amortisation charge for the year is allocated to production expenses $1 million (2010: $1 million) and administrative expenses $2 million (2010: $2 million) as appropriate.

19. Property, plant and equipment

$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2010	1,059	1,521	299	237	3,116
Additions	43	181	54	293	571
Capitalised depreciation	–	–	–	10	10
Transfers	26	57	3	(86)	–
Disposals	(18)	(69)	(9)	(4)	(100)
Net exchange adjustment	7	9	1	3	20
At 31 December 2010	1,117	1,699	348	453	3,617
Additions	8	143	35	388	574
Capitalised interest	–	–	–	28	28
Capitalised depreciation	–	–	–	6	6
Transfers	(2)	131	5	(134)	–
Disposals	(14)	(12)	(6)	(6)	(38)
Disposal of subsdiary	–	(112)	(5)	(5)	(122)
Net exchange adjustment	(7)	(13)	(2)	(5)	(27)
At 31 December 2011	1,102	1,836	375	725	4,038
Depreciation and impairment					
At 1 January 2010	417	830	127	55	1,429
Depreciation charge	51	139	30	–	220
Disposals	(11)	(64)	(8)	(1)	(84)
Impairment	15	10	1	(13)	13
Net exchange adjustment	2	5	1	–	8
At 31 December 2010	474	920	151	41	1,586
Depreciation charge	49	135	33	–	217
Disposals	(7)	(11)	(4)	–	(22)
Impairment	6	4	4	(3)	11
Net exchange adjustment	(3)	(5)	(2)	–	(10)
At 31 December 2011	519	1,043	182	38	1,782
Net book value					
At 31 December 2011	583	793	193	687	2,256
At 31 December 2010	643	779	197	412	2,031

(a) Capitalisation of borrowing costs
As at 31 December 2011, the Group capitalised $28 million (2010: $nil) of borrowing costs incurred on the outstanding debt during the year on the CDB/Samruk-Kazyna financing facilities at an average rate of interest of 5.24%.

(b) Non-cash transactions
During 2011, the site restoration and clean up provisions within Kazakhmys Mining were reassessed and as a result an additional $4 million has been recognised (2010: $11 million) with a corresponding adjustment to property, plant and equipment additions. This amount is a non-cash item and is recorded within site restoration and clean up provisions.

(c) Impairment
During 2011, property, plant and equipment of $11 million (2010: $13 million) was impaired which relates to the Kazakhmys Mining segment (see note 9(a)).

(d) Fully depreciated assets
At 31 December 2011, the cost of fully depreciated property, plant and equipment within Kazakhmys Mining was $551 million (2010: $496 million) and within MKM was $60 million (2010: $41 million).

(e) MKM investment grants and subsidies
Within MKM there were no significant investment grants and subsidies received from the German government during 2011 and 2010. As at 31 December 2011, the gross carrying value of property, plant and equipment previously subsidised by the German government amounted to $7 million (2010: $9 million).

20. Mining assets

$ million	Exploration cost	Mine development costs	Mine stripping costs	Construction in progress	Total
Cost					
At 1 January 2010	121	250	24	112	507
Additions	54	8	15	55	132
Capitalised interest	–	–	–	6	6
Capitalised depreciation	–	1	1	1	3
Transfers	1	104	–	(105)	–
Net exchange adjustment	1	1	–	–	2
At 31 December 2010	177	364	40	69	650
Additions	33	–	9	76	118
Capitalised depreciation	–	–	3	–	3
Transfers	7	60	–	(67)	–
Disposals	–	–	(6)	–	(6)
Net exchange adjustment	(2)	(3)	–	(1)	(6)
At 31 December 2011	215	421	46	77	759
Depletion and impairment					
At 1 January 2010	28	134	10	–	172
Depletion charge	–	18	20	–	38
Net exchange adjustment	–	1	–	–	1
At 31 December 2010	28	153	30	–	211
Depletion charge	–	20	5	–	25
Disposals	–	–	(6)	–	(6)
Impairment	–	3	(10)	–	(7)
Net exchange adjustment	–	(1)	–	–	(1)
At 31 December 2011	28	175	19	–	222
Net book value					
At 31 December 2011	187	246	27	77	537
At 31 December 2010	149	211	10	69	439

As at 31 December 2010, the Group capitalised $6 million of borrowing costs incurred on the outstanding debt during the year on the CDB/Samruk-Kazyna financing facilities at an average rate of interest of 5.32%. No borrowing costs were capitalised to mining assets in 2011.

21. Investment in joint venture

$ million	2011	2010
At 1 January	742	–
Recognition at fair value[1]	–	703
Share of profits from joint venture[2,3]	100	38
Net share of (losses)/gains of joint venture recognised in other comprehensive income[3]	(4)	1
At 31 December	838	742

1 Fair value was determined by reference to the enterprise value of Ekibastuz GRES-1 LLP using a discounted cash flow basis at the date of acquisition (see note 4).
2 Share of profits from joint venture is net of tax.
3 Based on the financial statements for the period ended 31 December 2011 of Ekibastuz GRES-1 LLP.

The investment in joint venture relates to the Group's 50% shareholding in Ekibastuz GRES-1 LLP. The details of the acquisition of the joint venture are described in note 4.

The following is a summary of the financial information of the Group's investment in joint venture based on Ekibastuz GRES-1 LLP's financial statements for the period ended 31 December 2010 and 2011:

$ million	2011	2010
Share of joint venture's assets and liabilities		
Non-current assets	522	447
Current assets	91	67
	613	514
Non-current liabilities	(95)	(86)
Current liabilities	(18)	(24)
	(113)	(110)
Net assets	500	404
Carrying amount of the investment	838	742

$ million	2011	2010
Share of joint venture's revenue and profit		
Revenue	233	138
Operating profit	126	66
Net finance costs	–	(2)
Income tax expense	(26)	(26)
Profit for the period	100	38

22. Investment in associate

The Group holds 334,824,860 shares in ENRC representing 26.0% of the issued share capital. There have been no changes in this holding in 2010 and 2011.

$ million	2011	2010
Investment in associate		
At 1 January	4,356	3,869
Share of profits from associate[1,2]	466	522
Net share of (losses)/gains of associate recognised in other comprehensive income	(109)	27
Dividends received	(113)	(62)
At 31 December	4,600	4,356

1 Share of profits from associate is net of tax.
2 Based on ENRC's unaudited preliminary financial statements for the year ended 31 December 2011 published on 21 March 2012.

At 31 December 2011, the Group's 26.0% investment in ENRC had a market value of $3,289 million (31 December 2010: $5,431 million) which was determined by reference to the published price quotation on the London Stock Exchange. The carrying value of the Group's equity investment in ENRC exceeded the market value by an amount that the Directors deemed as significant as envisaged by IAS 39 'Financial instruments: recognition and measurement'. As a result, an impairment review was performed in accordance with IAS 36 'Impairment of assets', which concluded that no impairment was necessary as the recoverable amount of the ENRC investment, being its value-in-use, exceeded the carrying value. In determining the value-in-use of the ENRC investment, the Directors made estimates of the future cash flows to be generated by ENRC using publically available information on ENRC's production volumes and capital expenditure, inflation, exchange rates and commodity price forecasts.

The accounting period end of ENRC is 31 December.

The following is a summary of the financial information of the Group's investment in ENRC based on ENRC's published unaudited results:

$ million	2011	2010
Share of associate's assets and liabilities		
Total assets	4,034	3,723
Total liabilities	(1,113)	(1,114)
Net assets	2,921	2,609
Carrying amount of the investment	4,600	4,356

$ million	2011	2010
Share of associate's revenue and profit		
Revenue	2,003	1,717
Operating profit	700	659
Gain arising related to the acquisition of joint venture	–	77
Profit before finance items, taxation and share of profits from joint ventures and associates	700	736
Net finance costs and share of loss of joint ventures and associates	(31)	(8)
Income tax expense and non-controlling interests	(203)	(206)
Profit for the period	466	522

23. Inventories

$ million	2011	2010
Raw materials and consumables	312	263
Work in progress	309	314
Finished goods	212	101
Gross value of inventories	833	678
Inventories provision	(89)	(93)
	744	585

The carrying amount of inventory that has been written down to net realisable value is $89 million (2010: $79 million).

The carrying amount of inventory recorded at fair value less costs to sell is $nil (2010: $9 million).

24. Prepayments and other current assets

$ million	2011	2010
Advances paid for goods and services	87	75
VAT reclaimable	89	59
Amounts due from related parties	15	7
Other	46	26
Gross value of prepayments and other current assets	237	167
Provision for impairment of receivables	(10)	(12)
	227	155

Provision for impairment as at 31 December 2011 includes a provision against the balances due from related parties (included within 'other companies' – see note 38), amounting to $5 million (2010: $3 million).

25. Trade and other receivables

$ million	2011	2010
Trade receivables	251	321
Amounts due from related parties	100	94
Amounts due from third parties	151	227
Interest receivable	1	2
Gross value of trade and other receivables	252	323
Provision for impairment of receivables	(62)	(59)
	190	264

Included within trade receivables is an amount of $3 million (2010: $21 million within trade payables) in respect of provisionally priced metal sales which are marked-to-market using forward prices in accordance with the Group's revenue recognition accounting policy.

Provision for impairment as at 31 December 2011 includes a provision on receivables due from related parties (included within "companies under trust management" – see note 38), amounting to $48 million (2010: $44 million).

26. Current investments

$ million	2011	2010
At 1 January	356	58
Additions	534	367
Disposals	(80)	(69)
At 31 December 2011	810	356

Current investments consist of bank deposits with initial terms of maturities of between three and twelve months held with institutions in the UK and Kazakhstan.

27. Cash and cash equivalents

$ million	2011	2010
Cash deposits with maturities of less than three months	884	906
Cash at bank	218	206
Petty cash	–	1
Continuing operations[1]	1,102	1,113
Discontinued operations	9	13
Cash and cash equivalents in the statement of cash flows	1,111	1,126

[1] Includes approximately $900 million (2010: $500 million) of cash drawn down under the CDB/Samruk-Kazyna financing facilities which is reserved for specific development projects in accordance with the relevant facility agreements (see note 30).

28. Share capital and reserves

(a) Allotted share capital

	Number	£ million	$ million
Allotted and called up share capital – ordinary shares of 20 pence per share			
At 1 January 2011 and 2010	535,240,338	107	200
Issuance of Company's share capital pursuant to acquisition of non-controlling interest in subsidiary	177,623	–	–
At 31 December 2011	535,417,961	107	200

In November 2011, the Company issued 177,623 ordinary shares of 20 pence each and paid $8 million in consideration for the transfer of 49,266,115 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.73% at 1 January 2011 to 99.88% at 31 December 2011.

(b) Own shares

(i) Own shares purchased under the Group's share-based payment plans

The provision of shares to the Group's share-based payment plans is facilitated by an Employee Benefit Trust (see note 29). The cost of shares purchased by the Trust is charged against retained earnings. The Employee Benefit Trust has waived the right to receive dividends on these shares.

At 31 December 2011, the Group, through the Employee Benefit Trust, owned 848,309 shares in the Company (2010: 617,204) with a market value of $12 million and a cost of $16 million (2010: $15 million and $11 million respectively).

(ii) Own shares purchased under the Company's share buy-back programme

On 25 August 2011, the Group announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. The buy-back programme commenced on 27 September 2011 following receipt of regulatory and shareholder approval and by 31 December 2011, the Group had purchased 5,559,710 shares at a cost of $78 million. The bought back shares are held in treasury and have been accounted for as own shares. The cost of the shares is charged against retained earnings and no dividends are declared on these shares.

(c) Capital reserves

$ million	Reserve fund	Net unrealised gains reserve	Currency translation reserve	Capital redemption reserve	Hedging reserve	Total
At 1 January 2010	42	–	(1,040)	6	(2)	(994)
Exchange differences on retranslation of foreign operations[1]	–	–	31	–	–	31
Recycling of exchange differences on disposal of share in subsidiary	–	–	196	–	–	196
Share of gains of joint venture recognised in other comprehensive income	–	–	1	–	–	1
Share of gains of associate recognised in other comprehensive income	–	2	25	–	–	27
At 31 December 2010	42	2	(787)	6	(2)	(739)
Exchange differences on retranslation of foreign operations[1]	–	–	(21)	–	–	(21)
Recycling of exchange differences on disposal of subsidiary	–	–	33	–	–	33
Share of losses of joint venture recognised in other comprehensive income	–	–	(4)	–	–	(4)
Share of losses of associate recognised in other comprehensive income	–	(45)	(64)	–	–	(109)
At 31 December 2011	42	(43)	(843)	6	(2)	(840)

[1] Of the $21 million (2010: $31 million) of foreign exchange differences recognised in the currency translation reserve for the year, $3 million (2010: $1 million) relates to discontinued operations.

(i) Reserve fund
In accordance with legislation of the Republic of Kazakhstan the reserve fund comprises prescribed transfers from retained earnings amounting to 15% of Kazakhmys LLC's charter capital.

(ii) Net unrealised gains reserve
The net unrealised gains reserve is used to record the fair value movements of available for sale investments within the Group's associate, ENRC.

(iii) Currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not the US dollar into the Group's presentation currency.

(iv) Capital redemption reserve
As a result of the share buy-back programme undertaken in 2008, transfers are made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

(v) Hedging reserve
The hedging reserve is used to record the fair value movements of derivative financial instruments that have been designated as cash flow hedges within the Group's associate, ENRC.

29. Share-based payment plans

Commencing from 2007, the Company established a Long Term Incentive Plan (LTIP) and a Deferred Share Bonus Plan (DSBP). The total expense for the year ended 31 December 2011 arising from these plans was $4 million (2010: $3 million).

Both plans are discretionary benefits offered by the Company for the benefit of its employees. The main purpose is to increase the interest of the employees in Kazakhmys' long-term business goals and performance through share ownership. They represent incentives for employees' future performance and commitment to be aligned to the goals of the Group. The shares issued under these plans are dilutive ordinary shares. During the year the Company purchased 270,000 shares at a cost of $5 million through an Employee Benefit Trust. For any future awards, the Company may issue new shares rather than purchase the shares in the open market through the Employee Benefit Trust.

(a) Long Term Incentive Plan

Under the LTIP, awards over shares are granted to senior management of the Company at nil cost. The vesting of the shares is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies, as well as a requirement for the recipients of awards to remain in employment with the Company over the vesting period.

The first awards, granted on 3 December 2007, under the LTIP were made with either a two year vesting period or a three year vesting period. Awards over 11,226 shares were granted with a two year vesting period and awards over 37,862 shares were granted with a three year vesting period. All awards under this grant did not vest and have lapsed.

On 7 April 2008, awards over 66,202 shares were granted with a three year vesting period. All awards under this grant did not vest and have lapsed.

On 7 April 2009, awards over 262,987 shares were granted with a three year vesting period. A further award over 74,240 shares was granted on 26 November 2009 with a three year vesting period.

On 9 April 2010, awards over 94,277 shares were granted with a three year vesting period. A further award over 116,532 shares was granted on 17 May 2010 with a three year vesting period.

On 6 April 2011, awards over 367,315 shares were granted with a 38 month vesting period.

Additional awards are due to be granted to senior management in April 2012 and these will be subject to the same vesting criteria as the awards granted on 6 April 2011.

The fair value of the shares was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share performance.

The following table shows the movements in the number of shares during the year:

Number	2011	2010
Outstanding at 1 January	614,238	441,291
Granted on 9 April 2010 – 3 year vesting period	–	94,277
Granted on 17 May 2010 – 3 year vesting period	–	116,532
Granted on 6 April 2011 – 38 month vesting period	367,315	–
Lapsed on 31 December	(66,202)	(37,862)
Outstanding at 31 December	915,351	614,238
Exercisable at 31 December	–	–

29. Share-based payment plans – continued

The following table lists the inputs to the model:

	2011 Shares granted with a 38 month vesting period April 2011	2010 Shares granted with a 3 year vesting period May 2010	2010 Shares granted with a 3 year vesting period April 2010	2009 Shares granted with a 3 year vesting period November 2009	2009 Shares granted with a 3 year vesting period April 2009
Number of awards	367,315	116,532	94,277	74,240	262,987
Fair value at grant date	£9.89	£7.86	£11.15	£8.11	£3.23
Share price at grant date	£14.14	£12.01	£15.80	£12.13	£4.22
Exercise price	£nil	£nil	£nil	£nil	£nil
Expected volatility	77.5%	84.3%	66.1%	77.9%	74.0%
Expected weighted average life at 31 December 2011	2.4 years	1.4 years	1.3 years	0.9 years	0.3 years

The award over shares is not affected by the risk free rate of interest since no investment is required by the recipient, and therefore no interest could be earned elsewhere. On vesting of the award, the participants are entitled to cash equal to the value of dividends (excluding the dividend tax credit) that would have been paid on those shares between the grant date and the date of vesting. Therefore, expected dividend yield does not affect the valuation of the awards and has been set at zero to achieve this effect. Expected volatility is based on historic share price movements.

(b) Deferred Share Bonus Plan

On 9 April 2010, awards over 31,499 shares were granted to employees based on an average share price at grant date of £15.80 with a two year vesting period. Further awards over 8,237 shares were granted to employees based on an average share price at grant date of £15.80 with a one year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2009 bonus.

On 6 April 2011, awards over 43,373 shares were granted to employees based on an average share price at grant date of £14.14 with a two year vesting period. Further awards over 12,452 shares were granted to employees based on an average share price at grant date of £14.14 with a one year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2010 bonus.

Additional shares under the DSBP are due to be granted to employees in April 2012 based on the deferred amount of an employee's 2011 bonus. The number of shares granted to employees will be based on the cash value of the deferred bonus and the average share price for a period of time prior to the grant date in April 2012. The shares granted will vest after a period of one or two years after grant date.
At 31 December 2011, the cash value of the awards eligible for the DSBP, for which shares will be granted in April 2012, was $4 million.

	2011 Shares granted with a 2 year vesting period April 2011	2011 Shares granted with a 1 year vesting period April 2011	2010 Shares granted with a 2 year vesting period April 2010	2010 Shares granted with a 1 year vesting period April 2010
Number of awards	43,373	12,452	31,499	8,237
Fair value at grant date	14.14	14.14	15.80	15.80
Share price at grant date	14.14	14.14	15.80	15.80
Exercise price	£nil	£nil	£nil	£nil
Expected weighted average life at 31 December 2011	1.3 years	0.3 years	0.3 years	–

The following table shows the movements in the number of shares during the year:

Number	2011	2010
Outstanding at 1 January	97,818	73,522
Granted on 9 April 2010 – 2 year vesting period	–	31,499
Granted on 9 April 2010 – 1 year vesting period	–	8,237
Granted on 6 April 2011 – 2 year vesting period	43,373	–
Granted on 6 April 2011 – 1 year vesting period	12,452	–
Exercised	(38,895)	(8,958)
Lapsed on 31 December	(3,990)	(6,482)
Outstanding at 31 December	110,758	97,818
Exercisable at 31 December	28,130	678

(c) Executive Share Option Plan

The ESOP is an HMRC approved discretionary company share option plan that provides for the grant of market value options up to a value of £30,000 to executive Directors and certain selected UK-based senior executives. The vesting of the options is dependent on the total shareholder return (TSR) of the Group as compared to a group of listed comparator companies, as well as a requirement for the recipients of options to remain in employment with the Company over the vesting period.

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

The first options were granted on 9 April 2010 over 11,388 shares with a three year vesting period and at an exercise price of £15.80.
No options were granted to executive Directors under the ESOP in 2010.

On 6 April 2011, an option over 2,122 shares was granted with a 38 month vesting period and at an exercise price of £14.14. No options were granted to executive Directors under the ESOP in 2011.

The fair value of the shares was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share performance.

The following table shows the movements in the number of shares under option during the year:

Number	2011	2010
Outstanding at 1 January	11,388	–
Granted on 9 April 2010 – 3 year vesting period	–	11,388
Granted on 6 April 2011 – 38 month vesting period	2,122	–
Outstanding at 31 December	13,510	11,388
Exercisable at 31 December	–	–

30. Borrowings

	Maturity	Average interest rate during the year	Currency of denomination	Current $ million	Non-current $ million	Total $ million
31 December 2011						
CDB facility[1] – US$ LIBOR + 4.80%	2023	5.24%	US dollar	–	1,281	1,281
Pre-export finance facility[1] – US$ LIBOR + 1.25%	2013	1.48%	US dollar	525	87	612
Revolving trade finance facility[2] – EURIBOR + 2.25%	2015	3.83%	Euro	–	121	121
				525	1,489	2,014
31 December 2010						
CDB facility[1] – US$ LIBOR + 4.80%	2023	5.32%	US dollar	–	688	688
Pre-export finance facility[1] – US$ LIBOR + 1.25%	2013	1.52%	US dollar	519	612	1,131
Revolving trade finance facility[2] – EURIBOR + 3.00%	2012	3.55%	Euro	61	130	191
				580	1,430	2,010

1 Relates to continuing operations.
2 Relates to discontinued operations (see note 6(a)).

(a) Continuing operations

Pre-export finance facility

On 29 February 2008 Kazakhmys Finance PLC ("Kazakhmys Finance"), a wholly owned subsidiary of the Company, signed a five year pre-export finance facility for $2,100 million with a syndicate of banks to be used for general corporate purposes, including the acquisition of the Ekibastuz GRES-1 power plant and Maikuben West coal mine and incremental purchases of shares in ENRC. As at 31 December 2010 and 2011, the facility was fully drawn. The loan is secured on the value of copper sales contracts with certain designated customers. Monthly loan repayments commenced in March 2009 and will continue through to February 2013 following a one year availability period. Arrangement fees with an amortised cost as at 31 December 2011 of $2 million (2010: $6 million), gross cost before amortisation of $26 million (2010: $26 million), have been netted off against these borrowings in accordance with IAS 39. Interest is payable on the drawn balance at a rate of US$ LIBOR plus 1.25%. Kazakhmys PLC, Kazakhmys LLC and Kazakhmys Sales Limited act as guarantors of the loan. The pre-export finance facility contains change of control clauses which are shown on page 123.

China Development Bank ("CDB") and JSC Sovereign Wealth Fund Samruk-Kazyna ("Samruk-Kazyna") financing line

On 30 December 2009, Kazakhmys announced that it had secured a $2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a $3.0 billion financing line agreed between CDB and Samruk-Kazyna. Of the $2.7 billion secured for the Group, facility agreements were signed for $2.1 billion on 30 December 2009, and for a further $200 million on 12 January 2010, for the development of the Group's projects at Bozshakol and Bozymchak and other development projects, with the balance of $400 million remaining available over the next three years. Samruk-Kazyna has separately signed an agreement for $300 million of the $3.0 billion to be used elsewhere and not for the benefit of the Group.

The funds are available for drawing any time within a three year period and once drawn will attract interest semi-annually at an annualised rate of US$ LIBOR plus 4.8%. The loans have a final maturity of between 12 and 15 years from the first drawdown and repayment of principal commences from the end of the third year following the first drawdown under each facility.

As part of the financing package, the Company and JSC Kazakhtelecom ('Kazakhtel'), a subsidiary of Samruk-Kazyna, have provided a guarantee to CDB for a maximum of $2.0 billion of the $3.0 billion of loans made by CDB to Samruk-Kazyna (the 'Guarantee'). The Company's liability under the Guarantee is capped at $1.7 billion of principal plus 85% of any interest and any other duly payable costs and expenses. Any payments under the Guarantee will be netted off against payments to be made by Kazakhmys Finance under the loan agreements between it and Samruk-Kazyna. As the Guarantee is several and covers the separate $300 million loan made by CDB to Samruk-Kazyna (but not lent on for the benefit of the Group), the Company will be liable as to 85% of that amount (i.e. up to $255 million) if Samruk-Kazyna fails to make a payment due under that loan to CDB. Furthermore, the Company has granted a separate $2.7 billion parent company guarantee to Samruk-Kazyna, pursuant to which the Company guarantees repayment of all amounts lent by Samruk-Kazyna to Kazakhmys Finance, as is typical in such corporate loan facilities.

The guarantees under this financing package took effect on 1 March 2010 following receipt of confirmation from the UK Listing Authority that shareholder approval for the transaction was not required.

30. Borrowings – continued

As at 31 December 2011, $1,300 million (2010: $700 million) was drawn under the facility agreements signed to date. Arrangement fees with an amortised cost as at 31 December 2011 of $19 million (2010: $12 million), gross cost before amortisation of $22 million (2010:$14 million), have been netted off against these borrowings in accordance with IAS 39.

The fair value of the Guarantee has been determined using a discounted cash flow analysis. The probability of a default by Samruk-Kazyna in respect of its obligations under the $3.0 billion financing line between Samruk-Kazyna and the CDB, with the consequence that CDB calls on the Guarantee, has been determined using the historical default rate for entities with Kazakhstan's sovereign rating as provided by a recognised credit rating agency. The cash flows that would result from such a default by Samruk-Kazyna have been discounted using a risk-free discount rate. The right to net off payments made by the Company to the CDB under the Guarantee against the balance payable by Kazakhmys Finance to Samruk-Kazyna under the financing line between these parties is governed by English law and has been assumed to be effective in the event of such a default by Samruk-Kazyna. Using this valuation basis, the fair value of the Guarantee is less than $5 million, an immaterial figure in the context of a financing line available to the Group of $2.7 billion.

Related party transaction

Samruk-Kazyna is an entity wholly owned and controlled by the Government of Kazakhstan, the ultimate owner and controller of a 26% stake in the Company. The transaction therefore constitutes a "related party transaction" for the purposes of the Listing Rules. Due to the size of the $255 million guarantee liability, the UK Listing Authority confirmed on 1 March 2010 that the transaction falls within the modified requirements for a "smaller related party transaction" set out in Listing Rule 11.1.10 (see note 38).

Revolving credit facilities

The Group has available several revolving credit facilities entered into by Kazakhmys Finance, for general corporate purposes and to provide standby liquidity. At 31 December 2011, facilities amounting to $250 million had maturity dates in March 2013 and a $50 million facility had a maturity date in September 2013, all of which were undrawn.

Undrawn general and corporate purpose facilities

$ million	2011	2010
Revolving credit facilities (within Kazakhmys Finance PLC)	300	300
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	56	70
	356	370

(b) Discontinued operations

Revolving trade finance facility

In May 2006 MKM entered into a revolving trade finance facility with a syndicate of banks for a four year loan to finance the repayment of external borrowings and intercompany balances due to Kazakhmys LLC, and to fund working capital. In June 2009 the facility was refinanced with a new €170 million facility for three years with a final maturity in June 2012 which attracted interest at a rate of EURIBOR plus 3.00%. On 21 July 2011, the facility was refinanced for a further four years with a final maturity in July 2015. The facility was also increased from €170 million to €220 million, with interest now payable on the drawn balance at a rate of EURIBOR plus 2.25%. The loan is secured over the inventories and receivables of MKM.

Undrawn facilities

$ million	2011	2010
Revolving trade finance facility (within MKM)	101	33

31. Employee benefits

Kazakhmys LLC provides post-retirement benefits in Kazakhstan which are unfunded. These benefits include one-time retirement grants, financial aid, dental care, medical benefits, long-term disability allowances, sanatorium visits, annual financial support to pensioners, free tickets for city buses, privilege tickets for shuttle buses and funeral aid.

The amounts recognised in the income statements are as follows:

$ million	2011	2010
Employer's share of current service cost	2	1
Employer's share of past service cost	151	9
Actuarial losses recognised in period	5	–
Interest cost on benefit obligation	14	4
	172	14

During 2011, new legislation was enacted in Kazakhstan which increased the amounts payable for death and disability benefits. Under the new legislation, which applies retrospectively, the benefits payable are calculated on the basis of average salaries of employees currently in service. Prior to the change in the legislation, benefits payable were calculated on the basis of historic salaries defined by the legislation. This change has resulted in an average increase of approximately 290% within each category of benefits payable under the legislation over the prior year.

The expense is recognised in the following line items of the income statements:

$ million	2011	2010
Administrative expenses	158	10
Finance costs	14	4
	172	14

As the change in the legislation is non-recurring and does not impact the underlying trading performance of the business, $146 million of the total charge of $172 million, which relates solely to the change in legislation, has been treated as a special item.

The movement in the defined benefit obligation is as follows:

$ million	2011	2010
At 1 January	58	50
Employer's share of current service cost	2	1
Employer's share of past service cost	155	9
Net actuarial losses recognised in the period	6	–
Interest cost on benefit obligation	14	4
Benefits provided to employees	(19)	(6)
At 31 December	216	58
Unrecognised actuarial losses	(1)	–
Unrecognised past service cost	(4)	–
Net liability at 31 December	211	58

The expected settlement of the defined benefit obligation is as follows:

$ million	2011	2010
Current	23	–
Non-current	188	58
Net liability at 31 December	211	58

At 31 December 2010, the current portion of the obligation was not material for separate disclosure.

The principal actuarial assumptions used in determining the defined benefit obligation are as follows:

$ million	2011	2010
Discount rate at 31 December	8.0%	8.0%
Future salary increases	5.0%	5.0%
Medical and other related cost increases	5.0%	5.0%

In addition, mortality rates were determined with reference to the mortality table of the Kazakh population as of 2003.

Historical information is as follows:

$ million	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	211	58	50	40	37
Deficit in the plan	(211)	(58)	(50)	(40)	(37)
Experience adjustments arising on plan liabilities	–	–	–	–	–

The Group continues to pay the non-monetary benefits described in note 11.

32. Provisions

$ million	Site restoration and clean up	Payments for licences	Other	Total
At 1 January 2010	37	75	–	112
Arising/(reversing) during the year	11	(3)	27	35
Utilised	(2)	(8)	–	(10)
Unwinding of discount	3	5	–	8
At 31 December 2010	49	69	27	145
Arising/(reversing) during the year	4	(6)	11	9
Utilised	(3)	(7)	–	(10)
Unwinding of discount	4	4	–	8
Disposal of subsdiary	–	(23)	–	(23)
At 31 December 2011	54	37	38	129
Current	–	5	38	43
Non-current	54	32	–	86
At 31 December 2011	54	37	38	129
Current	–	8	27	35
Non-current	49	61	–	110
At 31 December 2010	49	69	27	145

(a) Site restoration and clean up

The costs of decommissioning and reclamation of mines within the Group are based on the amounts included in the Group's contracts for subsoil use. The provision represents the discounted values of the estimated costs to decommission and reclaim the mines at the dates of depletion of each of the deposits. The present value of the provision has been calculated using a discount rate of 8% (2010: 8%) per year. The liability becomes payable at the end of the useful life of each mine which ranges from one to 51 years. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, and the levels of discount and inflation rates.

32. Provisions – continued

(b) Payments for licences for mining assets

In accordance with its contracts for subsoil use, the Group is liable to repay the costs of geological information provided by the Government of Kazakhstan for licensed deposits. The total amount payable by the Group is discounted to its present value using a discount rate of 8% (2010: 8%). The uncertainties include estimating the amount of the payments and their timing. The amounts are payable prior to 2019.

(c) Payments for licences for exploration assets

In accordance with the terms of its exploration licence, Kazakhmys Petroleum, prior to its disposal on 23 December 2011, was liable to make payments to the Government for geological information and social commitments in Astana and the Aktobe region. The present value of the obligations was estimated by applying a discount rate of 12% (2010: 12%).

(d) Other

Other provisions are recorded where the Group has a legal or constructive obligation and a future outflow of resources is considered probable. Other provisions primarily relate to environmental pollution charges ("EPC") incurred in prior periods where there remains uncertainty over their eventual amount and the timing of settlement. The EPC provision arises from the tax audit conducted at Kazakhmys LLC for the years 2006 to 2008 inclusive, which identified a potential exposure resulting from a difference in the interpretation of legislation governing the applicability of stabilised rates applicable to EPC and related legislative matters. At 31 December 2010, the Directors assessed the position of Kazakhmys LLC and made a provision reflecting the probability that a settlement would be negotiated with the tax authorities following agreement being reached on the interpretation of the relevant legislation. Following developments during 2011, the tax authorities have reassessed the EPC liability for the years 2006 to 2008. As a result, the EPC liability accrued as at 31 December 2011 has been revised to reflect the amended assessment provided by the tax authorities, notwithstanding that the Group has challenged the basis of certain of the claims assessed by the tax authorities.

33. Trade and other payables

$ million	2011	2010
Payables under social obligations	181	167
Salaries and related payables	71	57
Trade payables	69	55
Royalties and mineral extraction tax payable	66	50
Other taxes payable	54	34
Interest payable	25	12
Payments received in advance	20	7
Amounts payable to related parties	1	4
Other payables and accrued expenses	11	17
	498	403

34. Reconciliation of profit before taxation to net cash inflow from operating activities

$ million	2011	2010
Profit before taxation from continuing operations	1,623	1,592
(Loss)/profit before taxation from discontinued operations	(431)	59
Interest income	(8)	(9)
Interest expense	51	56
Share-based payment	4	3
Depreciation and depletion	233	245
Amortisation	3	3
Share of profits from joint venture	(100)	(38)
Share of profits from associate	(466)	(522)
Impairment losses	462	84
Unrealised foreign exchange loss	(3)	21
Operating cash flows before changes in working capital and provisions	1,368	1,494
Increase in inventories	(67)	(145)
(Increase)/decrease in prepayments and other current assets	(77)	66
Decrease/(increase) in trade and other receivables	78	(107)
Increase in employee benefits	154	8
Increase in provisions	20	28
Increase in trade and other payables	62	107
Cash flows from operations before interest, income taxes and dividends from associate	1,538	1,451

Non-cash transactions

There were the following non-cash transactions:

- As stated in note 7(a)(v) the Group capitalised depreciation of $9 million (2010: $13 million) for property, plant and equipment and mining assets.
- The Group capitalised to intangible assets an amount of $nil (2010: $4 million) and de-recognised $6 million (2010: $7 million) relating to provisions for contractual reimbursements payable to the Government for geological information and social commitments.
- The reassessment of the site restoration and clean up provisions during the year has resulted in the capitalisation of $4 million (2010: $11 million) to property, plant and equipment, with a corresponding increase in the site restoration and clean up provisions.

35. Movement in net liquid funds/(debt)

$ million	At 1 January 2011	Cash flow	Attributable to discontinued operations	Net exchange translation	At 31 December 2011
Cash and cash equivalents	1,113	(20)	4	5	1,102
Current investments	356	454	–	–	810
Borrowings	(1,819)	3	(70)	(7)	(1,893)
Net liquid funds/(debt)	(350)	437	(66)	(2)	19

$ million	At 1 January 2010	Cash flow	Attributable to discontinued operations	Net exchange translation	At 31 December 2010
Cash and cash equivalents	903	182	29	(1)	1,113
Current investments	58	298	–	–	356
Borrowings	(1,650)	(283)	102	12	(1,819)
Net debt	(689)	197	131	11	(350)

36. Financial risk management

The financial information disclosed in the tables relating to the year ended 31 December 2011 represents continuing operations only.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close cooperation with the Group's business divisions under oversight of a Treasury Committee, which is chaired by the Chief Financial Officer. The responsibilities of the Treasury Committee include the monitoring of financial risks, management of the Group's cash resources, debt funding programmes and capital structure, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury Policy has been approved by the Board and is periodically updated to reflect developments in the financial markets and the financial exposures facing the Group. The Treasury Policy covers specific areas of financial risk management, in particular, liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. The Group's Treasury Committee and the Group's Internal Audit department monitor compliance with the Treasury Policy on a regular basis.

The Group's Treasury department prepares monthly treasury reports for senior management which monitor all major financial exposures and treasury activities undertaken by the Group. In addition, a treasury report is prepared for each Board meeting which includes a summary of the credit markets and their impact on the implementation of the Group's strategy, progress on the Group's financing initiatives and the significant financial exposures faced by the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents, current investments and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are controlled and managed centrally by the Group's Treasury department. Liquidity retained within Kazakhstan is only held for working capital purposes.

The Group's accounting policies with regard to financial instruments are detailed in note 3.

(a) Derivatives, financial instruments and risk management

The Group periodically uses derivative financial instruments to manage certain exposures to fluctuations in commodity prices, interest rates and exchange rates. The Group's philosophy is generally not to hedge its core revenue streams. In periods of significant market volatility or uncertainty, the Group may use derivative instruments as a means of reducing volatility and any negative impact on its operating cash flows. Strict limits on the size and type of any derivative hedge transaction are laid down by the Board and subject to strict internal controls. The Group does not hold any speculative financial instruments.

MKM uses natural hedging arising on back-to-back purchase and supply contracts to manage, to the fullest extent possible, its economic exposure to changes in the price of copper. In the event of any timing mismatch on the purchase and supply contracts, MKM uses commodity futures to manage its short-term exposure to changes in the price of copper. All commodity hedge contracts are for short-term duration (less than 12 months).

36. Financial risk management – continued

(b) Categories of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities by categories are as follows:

$ million	Notes	2011	2010
Loans and receivables[1]	25, 26, 27	2,112	1,742
Financial liabilities measured at amortised cost[2]	30, 32, 33	(2,289)	(2,202)

1 Loans and receivables comprise other non-current investments, trade and other receivables, current investments and cash and cash equivalents.
2 Financial liabilities measured at amortised cost comprise borrowings, provision for cash payments (payments for licences), trade and other payables (excluding payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments) and dividends payable by subsidiaries.

(c) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by an operating company in currencies other than that company's functional currency. The functional currency of Kazakhmys Mining (production entities), Kazakhmys Power and Kazakhmys Petroleum is the Kazakhstan tenge, with MKM having a Euro functional currency, Kazakhmys Services Ltd having a UK sterling functional currency, and the Company and the other entities within the Group having a US dollar functional currency. The currencies giving rise to this foreign currency risk are primarily the US dollar based revenues and certain costs, bank deposits, trade receivables and certain trade payables of Kazakhmys LLC, and the US dollar and UK sterling balances in respect of certain revenues, and trade receivables and payables of MKM. The Group generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

During 2011, the Group entered into a series of forward foreign exchange transactions to purchase KZT against the USD with a value of $40 million per month from April through to December 2011. The forward transactions were executed at rates averaging between 144.65 KZT/USD and 145.44 KZT/USD on a monthly basis. The purpose of the forward contracts was to hedge the impact on KZT denominated operating costs of the possible appreciation of the tenge against the US dollar. The swaps were closed out during 2011 and no positions remain outstanding in respect of 2012 or future years.

(i) Foreign currency exposure by company profile

The analysis in the table below of the net monetary assets and liabilities (including intercompany amounts) indicates the Group's exposure to currencies other than the functional currency of a company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2011 and 2010 these exposures were as follows:

$ million	US dollar	UK sterling	Euro	KZT	Other
2011					
Company	n/a	(6)	–	–	–
Kazakhmys LLC	301	–	(1)	n/a	(2)
Kazakhmys Sales Ltd	n/a	–	–	–	–
Other trading companies	5	–	–	n/a	(2)
Non-trading or holding companies	61	9	9	281	–
	367	3	8	281	(4)

$ million	US dollar	UK sterling	Euro	KZT	Other
2010					
Company	n/a	2	–	–	–
Kazakhmys LLC	376	–	–	n/a	(1)
Kazakhmys Sales Ltd	n/a	–	–	–	–
Kazakhmys Petroleum	(6)	–	–	n/a	–
Other trading companies	(54)	–	–	–	–
Non-trading or holding companies	(1)	(2)	18	(3)	–
	315	–	18	(3)	(1)

(ii) Foreign currency exposure by balance sheet account profile

The Group's exposure to foreign currency risk based on gross amounts is shown below:

$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2011						
Trade and other receivables	355	–	–	294	–	649
Current investments	20	–	–	–	–	20
Cash and cash equivalents	161	9	10	3	1	184
Provisions for cash payments	(35)	–	–	–	–	(35)
Borrowings	(120)	–	–	–	–	(120)
Trade and other payables	(14)	(6)	(2)	(16)	(5)	(43)
	367	3	8	281	(4)	655

$ million	US dollar	UK sterling	Euro	KZT	Other	Total
2010						
Trade and other receivables	429	2	–	–	–	431
Current investments	53	–	–	–	–	53
Cash and cash equivalents	142	4	20	–	–	166
Provisions for cash payments	(69)	–	–	–	–	(69)
Borrowings	(82)	–	–	–	–	(82)
Trade and other payables	(158)	(6)	(2)	(3)	(1)	(170)
	315	–	18	(3)	(1)	329

(iii) Foreign currency sensitivity analysis

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2011. This sensitivity does not represent the income statement impact that would be expected from a movement in exchange rates over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% strengthening of the US dollar against the following currencies at 31 December would have increased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010:

	Impact on profit	
$ million	2011	2010
KZT	3	31
Euro	1	3
UK sterling	–	3

A 10% weakening of the US dollar against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Commodity price risk

The Group is exposed to the effect of fluctuations in the price of copper, which is quoted in US dollars on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of copper prices in the future. The Group is also exposed, to a lesser degree, to the prices of other metals, including zinc, gold and silver, which are products produced by the Group as by-products to the copper production process.

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2011. This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% increase/(decrease) in commodity prices would have increased/(decreased) profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular costs, remain constant. The analysis is performed on the same basis for 2010:

	Impact on profit	
$ million	2011	2010
Copper	–	1
Other commodities	–	–

(e) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's interest rate management policy is generally to borrow and invest at floating rates of interest. In some circumstances, an element of fixed rate funding may be considered appropriate. A limited amount of fixed rate hedging using interest rate swaps may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical levels. The Group had no outstanding interest rate swaps as at 31 December 2011 and 31 December 2010.

36. Financial risk management – continued

At 31 December 2011 and 2010 all borrowings were at floating rates. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

$ million	Floating rate	Fixed rate	Non-interest bearing	Total
				At 31 December 2011
Financial assets				
Non-current investments	–	8	2	10
Trade and other receivables	–	–	190	190
Current investments	–	810	–	810
Cash and cash equivalents	401	681	20	1,102
Total financial assets	401	1,499	212	2,112
Financial liabilities				
Provisions for cash payments	–	37	–	37
Borrowings	1,893	–	–	1,893
Trade and other payables[1]	–	–	358	358
Dividends payable	–	–	1	1
Total financial liabilities	1,893	37	359	2,289

1 Trade and other payables exclude payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments.

$ million	Floating rate	Fixed rate	Non-interest bearing	Total
				At 31 December 2010
Financial assets				
Non-current investments	–	7	2	9
Trade and other receivables	–	–	264	264
Current investments	–	356	–	356
Cash and cash equivalents	372	709	32	1,113
Total financial assets	372	1,072	298	1,742
Financial liabilities				
Provisions for cash payments	–	69	–	69
Borrowings	1,819	–	–	1,819
Trade and other payables[1]	–	–	312	312
Dividends payable	–	–	2	2
Total financial liabilities	1,819	69	314	2,202

1 Trade and other payables exclude payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments.

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

In accordance with IFRS 7, the impact of interest rates has been determined based on the balances of financial assets and liabilities at 31 December 2011. This sensitivity does not represent the income statement impact that would be expected from a movement in interest rates or outstanding borrowings over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. The effect on profit after tax of a 1% movement in US$ LIBOR rates, based on the year-end net funds position and with all other variables held constant, is estimated to be $9 million (2010: $9 million).

(f) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash and cash equivalents, current investments and derivative financial instruments are with approved counter-party banks and other financial institutions in accordance with the Group's Treasury Policy. Counterparties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Credit risk relating to trade receivables

Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited in respect of trade receivables. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

Customer credit risk is managed by each division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all major customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an on-going basis, and receivables that are neither past due nor impaired are considered of good credit quality.

Letters of credit are obtained where customer credit quality is not considered strong enough for open credit.

There were no material impairments of trade receivables during the year ended 31 December 2011 or 2010. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

Within Kazakhmys Mining, cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are made under letters of credit which are obtained prior to delivery and transfer of title of the goods.

Payment from European and Chinese customers is subject to provisional pricing and then final pricing adjustments. Kazakhmys Mining is therefore exposed to the residual final pricing adjustment for each sales transaction although such amounts are not considered material in the context of the Group's overall revenues.

Kazakhmys Mining also provides certain social services to municipal authorities in the communities in which it operates as part of its contractual obligations under its subsoil licences. For most receivable balances due from municipal authorities, full provision is recognised in light of past payment history.

MKM has put in place credit insurance for the majority of its sales and credit limits are set by the credit insurance company depending on the financial strength and location of each customer. For those sales where credit insurance is not available, short payment terms and regular dialogue with customers ensures credit risk is kept to a minimum.

As at 31 December 2011, 10 (2010: 10) customers accounted for 87% (2010: 80%) of the trade and other receivables balance of Kazakhmys Mining. By 22 March 2012, 98% (23 March 2011: 98%) of year-end balances due from these customers had been received in full.

(i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

$ million	2011	2010
Europe	24	79
China	121	135
Kazakhstan	34	41
Other	11	9
	190	264

(ii) Impairment losses

The ageing of trade receivables at 31 December was:

	2011		2010	
$ million	Gross	Impairment	Gross	Impairment
Not past due	178	–	213	–
Past due 0-90 days	10	(2)	41	(1)
Past due 91-180 days	2	(1)	10	(1)
Past due 181-270 days	4	(1)	4	(2)
More than 270 days	58	(58)	55	(55)
	252	(62)	323	(59)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

$ million	2011	2010
At 1 January	59	52
Charged to income statement	6	7
Written off	(3)	–
At 31 December	62	59

(iii) Credit risk related to financial instruments and cash deposits

Credit risk relating to the Group's other financial assets, comprising principally cash and cash equivalents, current investments and derivative financial instruments arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's Treasury Committee in accordance with a Board approved Treasury Policy. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and within credit limits assigned to each counterparty. 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, with the funds in the UK being held primarily with major European and US financial institutions with minimum ratings of Standard & Poors 'A-' and Moodys 'A3' and 'AAA' rated liquidity funds. These limits are reviewed on a regular basis to take account of developments in financial markets and updated accordingly. The limits are set to minimise the concentration of risks and therefore mitigate any financial loss through potential counterparty failure.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

$ million	2011	2010
Non-current investments	10	9
Trade and other receivables	190	264
Current investments	810	356
Cash and cash equivalents	1,102	1,113
	2,112	1,742

36. Financial risk management – continued

(g) Liquidity risk

The Group maintains a balance between availability of funding and maximising investment return on its liquid resources through the use of liquid cash investments of varying maturities, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group in selecting appropriate maturities for its liquid cash investments.

In the event that bank term deposits in Kazakhstan need to be liquidated at short notice in advance of their contracted maturity date, the terms of these investments permit their immediate conversion to cash, and in some instances, the forfeiture of interest accrued to the date of liquidation.

The Group's policy is to centralise debt and surplus cash balances to the maximum extent possible.

Undrawn general and corporate facilities

$ million	2011	2010
Revolving credit facilities (within Kazakhmys Finance PLC)	300	300
Letter of credit and bank guarantee facilities (within Kazakhmys LLC)	56	70
Credit lines	356	370

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2011						
Provisions for cash payments[1]	–	–	(5)	(27)	(25)	(57)
Borrowings[2]	–	(152)	(452)	(901)	(788)	(2,293)
Trade and other payables[3]	–	(358)	–	–	–	(358)
Dividends payable	(1)	–	–	–	–	(1)
	(1)	(510)	(457)	(928)	(813)	(2,709)
Non-current investments	–	–	–	10	–	10
Trade and other receivables	–	190	–	–	–	190
Current investments	–	–	810	–	–	810
Cash and cash equivalents[4]	218	884	–	–	–	1,102
	218	1,074	810	10	–	2,112
	217	564	353	(918)	(813)	(597)

1 Provisions for cash payments are presented on an undiscounted gross basis.
2 Borrowings include expected future interest payments based on contracted margins and prevailing LIBOR rates at the balance sheet date.
3 Trade and other payables exclude payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments.
4 Includes approximately $900 million of cash drawn down under the CDB/Samruk-Kazyna financing line which is reserved for specific developments projects in accordance with the relevant facility agreements (see note 30).

$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2010						
Provisions for cash payments[1]	–	–	(8)	(49)	(47)	(104)
Borrowings[2]	–	(143)	(429)	(1,024)	(554)	(2,150)
Trade and other payables[3]	–	(312)	–	–	–	(312)
Dividends payable	(2)	–	–	–	–	(2)
	(2)	(455)	(437)	(1,073)	(601)	(2,568)
Non-current investments	–	–	–	9	–	9
Trade and other receivables	–	264	–	–	–	264
Current investments	–	–	356	–	–	356
Cash and cash equivalents[4]	207	906	–	–	–	1,113
	207	1,170	356	9	–	1,742
	205	715	(81)	(1,064)	(601)	(826)

1 Provisions for cash payments are presented on an undiscounted gross basis.
2 Borrowings include expected future interest payments based on contracted margins and prevailing LIBOR rates at the balance sheet date.
3 Trade and other payables exclude payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments.
4 Includes approximately $500 million of cash drawn down under the CDB/Samruk-Kazyna financing line which is reserved for specific developments projects in accordance with the relevant facility agreements (see note 30).

(h) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	2011		2010	
$ million	Carrying value	Fair value	Carrying value	Fair value
Non-current investments	10	10	9	9
Trade and other receivables	190	190	264	264
Current investments	810	810	356	356
Cash and cash equivalents	1,102	1,102	1,113	1,113
Provisions for cash payments	(37)	(37)	(69)	(69)
Borrowings	(1,893)	(1,867)	(1,819)	(1,819)
Trade and other payables[1]	(358)	(358)	(312)	(312)
Dividends payable	(1)	(1)	(2)	(2)
	(177)	(151)	(460)	(460)

[1] Trade and other payables exclude payments received in advance, other taxes payable and royalties and mineral extraction tax payable that are not regarded as financial instruments.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, current investments, trade and other receivables, trade and other payables and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- provisions for cash payments are discounted back to their present value; and
- the fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt and remaining maturities.

(i) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the commodity cycle and to maintain an optimal capital structure with a view to maximising returns to shareholders (either through ordinary or special dividends, or share buy-backs) and benefits to other stakeholders by reducing the Group's cost of capital.

At 31 December 2011, total capital employed (which comprises equity holders' funds, non-controlling interests and borrowings) of the Group amounted to $10,725 million, compared to $10,038 million at 31 December 2010. Total capital employed is the measure of capital that is used by the Directors in managing capital.

At 31 December 2011, the Group is in a net funds position from continuing operations of $19 million (2010: net debt of $350 million). The Group manages net debt to ensure that it does not exceed two times normalised EBITDA through the commodity cycle, where normalised EBITDA excludes special items and equity accounted earnings from ENRC and Ekibastuz GRES-1 LLP (from 27 February 2010). Included within the debt facilities are financial covenants related to maximum borrowing levels (determined by reference to net debt to EBITDA and debt to equity ratios) and minimum tangible net worth for which compliance certificates are produced. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. There are no covenants under negotiation at present.

37. Commitments and contingencies

(a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group. As of 31 December 2011 and 2010, the Group was not involved in any significant legal proceedings, including arbitration, other than those involving the taxation matters set out below.

(b) Kazakhstan taxation contingencies

(i) Inherent uncertainties in interpreting tax legislation

The Group is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. The Directors' interpretation of tax legislation as applied to the transactions and activities of the Group may not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines which could have a material adverse effect on the Group's financial position and results of operations.

(ii) Kazakhmys Mining – tax audits

During 2010 and 2011, a tax audit for the years 2006 to 2008 was undertaken at Kazakhmys LLC whose scope included corporate income tax, environmental taxes and other taxes charged to the income statement. The tax audit was completed and a final assessment issued in October 2011, which resulted in a claim against Kazakhmys LLC in excess of the amounts previously paid. The Directors have recognised a provision for the amounts that represent the Directors' best estimate of the probable cash payments that will be required to settle these claims. The risk exists that the ultimate settlement will exceed the Directors' estimation. The tax computations for the years ended 31 December 2009 and 31 December 2010 remain open for inspection during a future tax audit. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

37. Commitments and contingencies – continued

(iii) Kazakhmys Mining – transfer pricing

In June 2010, amendments to Kazakhstan's transfer pricing legislation were passed into law and were made largely retrospective from 1 January 2009. The new legislation clarified certain areas of interpretation, including the use of LME and LBMA prices as the basis of market prices, quotation periods to be used for the sale and purchase of traded commodities and the acceptability of discounts with reference to LME/LBMA prices when transacting in traded commodities. Notwithstanding these amendments, the Directors have recognised a provision for the amounts that represent the Directors' best estimate of the probable cash payments that will be required to settle any residual transfer pricing exposures based on the Directors' interpretation of the new transfer pricing legislation (including the impact of the amendments passed into law in June 2010) and the prevailing status of discussions with the tax authorities. The risk remains that the tax authorities may take a different position with regards to the interpretation of the new transfer pricing legislation, and amendments thereof, and the outcome of discussions with the Kazakhstan tax authorities may be materially different from the Directors' expectations.

(iv) Kazakhmys Mining – excess profits tax

New tax legislation came into force in Kazakhstan on 1 January 2009 which removed the tax stabilisation of subsoil use contracts and changed the excess profits tax methodology. Based on production and material flows within Kazakhmys LLC for the periods subsequent to 31 December 2008, the Directors' interpretation of the new tax legislation is that excess profits tax should no longer be levied on Kazakhmys LLC's operations after 1 January 2009. The Directors' position is supported by discussions and correspondence with the Government authorities. However, at 31 December 2011, the risk remained that the tax authorities may take a different position with regards to the interpretation of the new legislation and seek to impose excess profits tax on Kazakhmys LLC's operations for the years subsequent to 2008.

In October 2011, the Supreme Court of Kazakhstan issued a ruling that Kazakhmys LLC should not have been liable for excess profits tax in the periods up to and including 2008. Following this ruling as well as the results of two previous tax audits for the years 2003 to 2008, where the tax authorities have confirmed Kazakhmys LLC's methodology in calculating its excess profits taxation liabilities by making no further claims, the Group has released the excess profits tax provision of $49 million (including fines and penalties) that was recognised in earlier years. The provision was recognised previously due to the uncertainties over the judgements that were made in respect of Kazakhmys LLC's methodology of computing excess profits tax in periods up to and including 2008. Consequently, the Directors believe that the likelihood of further liabilities or exposures existing in respect of excess profits tax for the periods up to and including 2008 is remote.

(v) Period for additional tax assessments

The tax authorities in Kazakhstan are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of excess profits tax, they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(vi) Possible additional tax liabilities

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Kazakhstan and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

(c) UK taxation contingencies

(i) Status of tax audits

No tax audits have been commissioned for the UK companies, however the tax computations for the years ended 31 December 2009 and 31 December 2010 remain open to enquiry by the tax authorities until 31 January 2012 and 31 December 2012, respectively. Consequently, the tax figures recorded in the financial statements as they may relate to the tax computations for the years ended 31 December 2009 and 31 December 2010 may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in the UK and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise.

(ii) Transfer pricing

The Directors believe the Group is in substantial compliance with regards to UK transfer pricing legislation as an appropriate profit margin has been generated within the UK sales operation since its formation at the time of Listing to cover the transfer of risks and rewards from Kazakhstan to the UK.

(d) Insurance

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has purchased a catastrophic insurance programme in the London market to mitigate the effect of the loss or damage of certain of its assets located at its facilities and the resultant business interruption, although such a programme may not provide full cover in the event of a major loss. The Group does not have material third party liability coverage in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(e) Environmental contingencies

Environmental regulations in Kazakhstan are continually evolving and new emissions legislation is expected to be introduced in the near future. The outcome of environmental regulations under proposal or any future environmental legislation cannot be reliably estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements, however recognise that any future changes in legislation may have a significant impact on the Group's results. The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 32), is based upon the estimation of the Group's specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

(f) Use of subsoil and exploration rights

In Kazakhstan, all subsoil reserves belong to the State, with the Ministry of Industry and New Technologies (the 'Ministry') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations. The current subsoil rights will expire at varying dates up to 2062.

(g) Other commitments

The table below sets out the Group's expenditure commitments in property, plant and equipment as at 31 December 2011 and 2010:

$ million	2011	2010
Property, plant and equipment	148	155

The Group has capital expenditure commitments for the purchase of property, plant and equipment as well as commitments under its mining subsoil agreements, and the petroleum exploration licence in the prior period. Committed expenditure under these subsoil agreements relates to investments in community-related projects, and includes investments in social sphere assets, infrastructure and public utilities.

(h) Operating lease commitments

The operating lease expense for the year was $4 million (2010: $4 million). At 31 December 2011 and 2010, the Group had the following total commitments under non-cancellable operating leases:

$ million	2011	2010
Within one year	4	5
After one year but not more than five years	22	23
More than five years	57	59
	83	87

(i) Discontinued operations – German taxation contingencies

(i) Status of tax audits

In 2007 the German tax authorities finalised a tax audit of MKM for the years 1999 to 2002. The tax audit for the years from 2003 to 2005 is currently underway and the years 2006 to 2010 remain open for inspection. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Germany and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise.

38. Related party disclosures

(a) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Companies under trust management[1]				
2011	13	7	52	–
2010	13	8	47	2
Other[1]				
2011	2	25	10	1
2010	3	23	7	2

[1] A provision of $53 million (2010: $47 million) has been set against the amounts owed by related parties. The bad debt expense in relation to related parties was $6 million for the period (2010: $4 million).

(i) Government

Share ownership in the Company

On 24 July 2008, the Company issued 80,286,050 ordinary shares to the State Property and Privatisation Committee of the Government, thereby making the Government a 15% shareholder of the Company and a related party with effect from this date.

On 4 October 2010, the Group's Chairman, Vladimir Kim, sold 58,876,793 ordinary shares, approximately 11.0% of Kazakhmys' shares in issue, to Samruk-Kazyna. As a result of the transaction, the Government's interest in the Group increased to 139,162,843 ordinary shares, representing approximately 26.0% of the shares in issue. The Government's interest is held via The State Property & Privatisation Committee's existing 15.0% holding and the 11.0% shareholding of Samruk-Kazyna.

Following the purchase of 5,559,710 of the Company's shares under the share buy-back programme which commenced in September 2011, the Government's shareholding has increased to 26.3% as at 31 December 2011.

38. Related party disclosures – continued

Sale of 50% of Ekibastuz GRES-1 LLP to Samruk-Kazyna

In December 2009 it was announced that the Group had agreed to dispose of 50% of Ekibastuz GRES-1 LLP, a 100% owned subsidiary within the Kazakhmys Power division, to Samruk-Kazyna, for consideration of $681 million. The transaction completed on 26 February 2010 (see note 4).

China Development Bank ("CDB") and Samruk-Kazyna financing line

As explained in note 30, the Group secured a $2.7 billion financing line with Samruk-Kazyna and the CDB. The terms and conditions of the financing line, including a guarantee issued by the Group over the debt obligations of Samruk-Kazyna to the CDB under the financing line, are considered to be on an arm's length basis.

Other transactions

Throughout the normal course of business, the Group conducts transactions with entities controlled by the Government. The principal activities relate to the payment of electricity transmission fees, use of railway infrastructure and payments to tax authorities. In addition, the Group also constructs or pays for the construction of community assets and projects which may be transferred to the relevant Government department as part of the Group's social programme in Kazakhstan. Transactions between the Group and Government departments and agencies are considered to be related party transactions. Disclosure of these routine transactions is not made where all of the following criteria are met:

- they were done in the ordinary course of business of the Government department and/or company;
- there is no choice of suppliers; and
- they have terms and conditions (including prices, privileges, credit terms, regulations etc) that are consistently applied to all entities, public or private.

The Group did not have any material or significant non-arm's length or privileged transactions with entities controlled by the Government.

Dividend payment

The Government's share of the dividend paid by the Company in 2011 was $34 million (2010: $12 million).

(ii) ENRC

In 2011 the Group received dividends of $113 million from ENRC, the associated undertaking (2010: $62 million).

(iii) Companies under trust management agreements

The Group operates a number of companies under trust management agreements with local and state authorities. The activities include heating distribution systems, road maintenance and aviation services. The purpose of these agreements is to provide public and social services without any material financial benefit for the Group.

(iv) Other

Transactions with other companies primarily relate to the provision of goods and services, on an arm's length basis, with companies whose boards or shareholders include members of senior management from the Group's subsidiaries.

(b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

39. Company non-current investments

$ million	2011	2010
Cost		
At 1 January	7,311	7,311
Additions	151	–
At 31 December	7,462	7,311
Provision for impairment		
At 1 January	1,030	1,030
Charged to the income statement	63	–
At 31 December	1,093	1,030
Net book value	6,369	6,281

(i) Kazakhmys LLC

During 2008, a Group reorganisation took place such that the Company's investment in Kazakhmys LLC was transferred to an intermediate holding company through a share for share exchange. In November 2011, the Company issued 177,623 ordinary shares of 20 pence each and paid $8 million in consideration for the transfer of 49,266,115 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.73% at 1 January 2011 to 99.88% at 31 December 2011.

(ii) ENRC

The Company, via an intermediate holding company, holds 334,824,860 shares in ENRC representing 26.0% of the issued share capital (2010: 334,824,860 shares).

(iii) Kazakhmys Services Limited

At 31 December 2011, the Company waived the intercompany trade receivable due from Kazakhmys Services Limited in order to provide financial support to Kazakhmys Services Limited as a capital contribution. As a result, the outstanding amount of $141 million as at 31 December 2011, was capitalised to the cost of the Company's investment in Kazakhmys Services Limited. Following the capitalisation of this amount, an impairment review was performed which resulted in an impairment charge being recognised in the Company's income statement of $63 million to reduce the carrying amount of the investment in Kazakhmys Services Limited to its recoverable amount.

(iv) Other companies

The Company holds its interests in other subsidiaries in the Group either directly for United Kingdom registered subsidiaries or via intermediate holding companies for those businesses in Central Asia and Germany.

40. Company intercompany loan

The intercompany loans receivable of $825 million is from Kazakhmys Finance PLC (2010: $509 million) which has been advanced by the Company for general corporate purposes. This balance is repayable on demand and accrues interest at US$ LIBOR minus 10 bps. As at 31 December 2011, interest receivable of $2 million (2010: nil) had accrued on this loan balance and is included within intercompany receivables (see note 41).

41. Company trade and other receivables

$ million	2011	2010
Intercompany receivables	2	81
Group tax relief receivables	2	12
Other receivables	16	11
	20	104

At December 2010, Kazakhmys Services Limited owed the Company $81 million in relation to advances made for general corporate and working capital purposes. These amounts were interest free and repayable on demand. In 2011, the Company waived its right to receive these amounts.

Group tax relief is due from Kazakhmys Sales Limited of $2 million (2010: $12 million) as all UK Group companies are considered part of a tax group for corporation tax purposes. The Company is in a loss-making position for tax purposes and therefore in a net receivable position.

Other receivables of $16 million (2010: $11 million) relates to the balance owed to the Company in relation to advances made to the Employee Benefit Trust for the purchase of the Company's own shares for the purposes of fulfilling the share based payments of the Company.

42. Company capital reserves

$ million	Capital reserve	Capital redemption reserve	Total
At 1 January 2010	779	6	785
At 31 December 2011 and 2010	779	6	785

(i) Capital reserve

The capital reserve is a non-distributable reserve created when the shares issued pursuant to the share exchange agreements prior to the Company's listing were recorded at fair value. To the extent the Company receives dividends from Kazakhmys LLC's profits created in the period prior to the share exchange, the capital reserve is realised through a transfer to distributable retained earnings.

(ii) Capital redemption reserve

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

43. Company trade and other payables

$ million	2011	2010
Salaries and related payables	6	5
	6	5

44. Company reconciliation of profit before taxation to net cash inflow from operating activities

$ million	Notes	2011	2010
Profit before taxation		524	2,207
Interest income		(2)	–
Share-based payment		4	3
Impairment loss	39	63	–
Dividends received		(600)	(2,221)
Operating cash flows before changes in working capital		(11)	(11)
Decrease in prepayments and other current assets		1	1
Decrease/(increase) in trade and other receivables		5	(85)
Increase in trade and other payables		1	1
Cash flows from operations before interest, income taxes and dividends received		(4)	(94)

45. Company movement in net debt

$ million	At 1 January 2011	Cash flow	At 31 December 2011
Cash and cash equivalents	–	1	1
Borrowings	–	–	–
Net debt	–	1	1

$ million	At 1 January 2010	Cash flow	At 31 December 2010
Cash and cash equivalents	39	(39)	–
Borrowings	(1,666)	1,666	–
Net debt	(1,627)	1,627	–

46. Company financial risk management

The Company, as a holding company, has limited exposure to foreign exchange, credit and interest rate risks and these are shown below. The Company has no exposure to commodity, liquidity or price risks.

(a) Foreign exchange risk

The Company has transactional currency exposures principally arising from transactions relating to corporate costs which are denominated in currencies other than the Company's functional currency being the US dollar. Corporate costs are primarily denominated in UK sterling. The Company generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

(b) Credit risk

Credit risk for the Company relates to cash and cash equivalents. Balances within intercompany loans and trade and other receivables mostly relate to amounts owed by Group undertakings resulting in reduced credit risk for these balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

$ million	2011	2010
Intercompany loans	825	509
Trade and other receivables	20	104
Cash and cash equivalents	1	–
	846	613

The exposure to credit risk for intercompany loans and trade and other receivables at 31 December 2011 and 2010 by geographic areas was all European.

(c) Interest rate risk

The Company has limited balances subject to interest rate risk. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

	At 31 December 2011			
$ million	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Intercompany loans	825	–	–	825
Trade and other receivables	–	–	20	20
Cash and cash equivalents	1	–	–	1
Total financial assets	826	–	20	846
Financial liabilities				
Trade and other payables	–	–	(6)	(6)
Total financial liabilities	–	–	(6)	(6)

	At 31 December 2010			
$ million	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets				
Intercompany loans	509	–	–	509
Trade and other receivables	–	–	104	104
Total financial assets	509	–	104	613
Financial liabilities				
Trade and other payables	–	–	(5)	(5)
Total financial liabilities	–	–	(5)	(5)

All the Company's interest bearing monetary assets are denominated in US dollars and have a maturity of less than one year.

(d) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	2011		2010	
$ million	Carrying value	Fair value	Carrying value	Fair value
Intercompany loans	825	825	509	509
Trade and other receivables	20	20	104	104
Cash and cash equivalents	1	1	–	–
Trade and other payables	(6)	(6)	(5)	(5)
	840	840	608	608

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash and cash equivalents, trade and other receivables, trade and other payables and intercompany loans approximate to their carrying amounts largely due to the short-term maturities of these instruments.

(e) Capital management

The over-riding objectives of the Company's capital management policy are to safeguard and support the business as a going concern through the commodity cycle and to maintain an optimal capital structure with a view to maximising returns to shareholders (either through ordinary or special dividends, or share buy-backs) and benefits to other stakeholders by reducing the Company's cost of capital (see note 36(i)).

47. Company related party disclosures

(a) Transactions with related parties

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

$ million	Sales to and interest income from related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Kazakhmys Finance PLC				
2011	2	–	827	–
2010	1	–	509	–
Kazakhmys Sales Limited				
2011	–	–	2	–
2010	–	–	12	–
Kazakhmys Services Limited				
2011	–	–	–	–
2010	–	–	81	–

As explained in note 38, the Government became a related party on 24 July 2008. Transactions involving the Government are explained in note 38.

As explained in notes 39 and 41, during the year the Company waived its right to receive repayments of outstanding intercompany loan balances from Kazakhmys Services Limited.

The Company received dividends of $100 million from Kazakhmys Sales Limited (2010: $55 million) and $500 million from Kazakhmys Investments Limited (2010: $2,166 million) during the year.

(b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an on-going basis depending on the nature of the transaction.

48. Subsidiaries

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

	Principal activity	Operating division	Country of incorporation	Equity interest at 31 December 2011 %	Equity interest at 31 December 2010 %
Kazakhmys Corporation LLC	Mining and processing copper	Kazakhmys Mining	Kazakhstan	99.9[1]	99.7[1]
Kazakhmys Sales Limited	Sales and logistics	Kazakhmys Mining	United Kingdom	100.0	100.0
Dank LLP	Mining and processing gold	Kazakhmys Mining	Kazakhstan	100.0[1]	100.0[1]
Charaltyn JSC	Exploration, mining and processing gold	Kazakhmys Mining	Kazakhstan	100.0[1]	100.0[1]
Andas Altyn LLP	Mining and processing gold	Kazakhmys Mining	Kazakhstan	100.0[1]	100.0[1]
Kazakhmys Gold Kyrgyzstan LLP	Copper/gold mine development	Kazakhmys Mining	Kyrgyzstan	100.0[1]	100.0[1]
Kazakhmys Finance PLC	Group financing	N/A	United Kingdom	100.0	100.0
Kazakhmys Services Limited	Management and services company	N/A	United Kingdom	100.0	100.0
Kazakhmys Investments Limited	Holding company	N/A	United Kingdom	100.0	100.0
MKM Mansfelder Kupfer und Messing GmbH[2]	Copper processing	MKM	Germany	100.0[1]	100.0[1]
Ekibastuz GRES-1 LLP[3]	Electric power generation	Kazakhmys Power	Kazakhstan	50.0[1]	50.0[1]
Kazakhmys Petroleum LLP[4]	Oil and gas exploration	Kazakhmys Petroleum	Kazakhstan	0.0[1]	100.0[1]
Maikuben-West LLP[5]	Coal mining	Kazakhmys Power	Kazakhstan	0.0[1]	100.0[1]

1 Indirectly held by the Company.
2 Classified as held for sale (see note 6(a)).
3 From 27 February to 31 December 2010 and for the year ended 31 December 2011, the investment was accounted as a joint venture (see note 21). For the period from 1 January 2010 to 26 February 2010, the investment was a 100% owned subsidiary.
4 On 23 December 2011, the Group sold its investment in Kazakhmys Petroleum LLP (see note 6(c)).
5 On 17 May 2011, the Group sold its investment in Maikuben West LLP (see note 6(b)).

49. Guarantees

The Company is the guarantor for the following:

- as explained in note 30, the Company, together with Kazakhmys LLC and Kazakhmys Sales Limited, is a guarantor of the $2,100 million pre-export finance debt facility;
- as explained in note 30, the Company is the guarantor of the loan facilities signed between Kazakhmys Finance PLC (a 100% owned subsidiary of the Company) and Samruk-Kazyna under the CDB/Samruk-Kazyna financing line. As at 31 December 2011, Kazakhmys Finance PLC had signed loan facilities amounting to $2,300 million and had drawn down $1,300 million under them. A further $400 million of loan facilities remain to be signed under the CDB/Samruk-Kazyna financing line;
- as explained in note 30, the Company is also party to a several but not joint guarantee to the CDB under the loan facilities between CDB and Samruk-Kazyna which is capped at $1,700 million of principal plus 85% of any interest and other duly payable costs and expenses. A right of set-off exists under the loan facilities between Samruk-Kazyna and Kazakhmys Finance PLC in the event of any payment being made by the Company to the CDB under this guarantee; and
- the operating lease on the Company's head office in London.

50. Events after the balance sheet date

(a) Post year-end dividend

The Directors recommend a final ordinary dividend in respect of the year ended 31 December 2011 of 20.0 US cents per share. Subject to approval of shareholders at the Annual General Meeting to be held on 11 May 2012, this dividend shall be paid on 15 May 2012.

Consolidated five year summary
Year ended 31 December 2011

$ million (unless otherwise stated)	2011	2010	2009	2008	2007
Results					
Revenues[1]	3,563	3,237	2,404	3,276	5,256
Profit before taxation and finance items[1]	1,691	1,659	772	1,187	2,048
Profit before taxation[1]	1,623	1,592	1,028	1,144	2,026
Profit after taxation[1]	1,402	1,389	767	820	1,427
(Loss)/profit for the year from discontinued operations	(472)	61	(214)	90	–
Profit attributable to equity shareholders	930	1,450	554	909	1,416
Assets employed					
Non-current assets	8,355	8,095	6,408	8,751	5,498
Current assets	3,376	2,900	3,555	1,903	1,856
Non-current liabilities	(1,648)	(1,484)	(1,376)	(2,206)	(614)
Current liabilities	(1,251)	(1,292)	(1,992)	(951)	(307)
Net assets	8,832	8,219	6,595	7,497	6,433
Financed by					
Equity	8,825	8,206	6,582	7,477	6,419
Minority interests	7	13	13	20	14
	8,832	8,219	6,595	7,497	6,433
Key statistics					
Segmental EBITDA (excluding special items)	1,959	1,932	1,211	1,627	2,336
Group EBITDA (excluding special items)	2,925	2,835	1,634	2,056	2,336
Underlying Profit	1,498	1,489	602	1,112	1,409
Free Cash Flow	824	718	579	715	895
EPS – basic and diluted ($)	1.75	2.71	1.04	1.85	3.04
EPS based on Underlying Profit ($)	2.80	2.79	1.13	2.27	3.02
Dividends per Share (US cents)	28.0	22.0	–	41.4	89.3
Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb)	114	89	72	116	33
Maintenance spend per tonne of own copper cathode ($/t)	1,237	1,075	644	1,038	672

1 From continuing operations only for 2011, 2010, 2009 and 2008.

Production and sales figures

1. Summary of significant production and sales figures

kt (unless otherwise stated)	2011	2010
Kazakhmys Mining		
Ore mined[1]	33,432	32,935
Copper content in ore mined (%)	1.01	1.09
Copper cathode equivalent production:		
From own concentrate	299	303
From purchased concentrate	2	3
Total copper cathodes equivalent produced[2]	301	306
Total copper cathodes equivalent sales	293	317
Zinc in concentrate production	140	167
Silver own production[3] (koz)	13,137	14,127
Gold bar own production (koz)	118	127
Gold doré production (koz)	33	43
Kazakhmys Power		
Electricity net power generated[4] (GWh)	18,275	16,654

1 Excludes output from mines in the former Gold division: Central Mukur and Mizek.
2 Includes copper sold in concentrate and cathode converted into rod.
3 Includes production from mines in the former Gold division: Central Mukur and Mizek.
4 Includes 100% of Ekibastuz GRES-1 and captive power stations.

2. Kazakhmys Mining

(a) Metal mining[1]

	Ore mined		Copper		Zinc		Gold		Silver	
	2011 kt	2010 kt	2011 %	2010 %	2011 %	2010 %	2011 g/t	2010 g/t	2011 g/t	2010 g/t
Zhezkazgan Region										
North	2,107	1,904	0.69	0.90	–	–	–	–	5.91	6.41
South	5,268	5,272	0.57	0.60	–	–	–	–	12.82	15.65
Stepnoy	3,278	3,371	0.62	0.76	–	–	–	–	12.82	14.38
East	3,788	4,363	0.55	0.65	–	–	–	–	11.36	12.86
West	2,066	1,565	0.49	0.55	–	–	–	–	12.01	11.07
Annensky	2,671	3,127	0.58	0.67	–	–	–	–	14.47	14.91
Zhomart	3,712	3,707	1.44	1.56	–	–	–	–	8.18	7.28
Total Zhezkazgan Region	22,890	23,309	0.72	0.82	–	–	–	–	10.73	12.45
Central Region										
Shatyrkul	573	559	2.21	2.25	–	–	0.38	0.45	2.11	2.39
Sayak I and Sayak III	1,605	1,802	0.71	0.93	–	–	0.22	0.24	4.60	5.31
Abyz	491	465	1.33	1.73	2.69	2.81	3.23	3.47	34.57	37.34
Akbastau	501	–	1.74	–	0.66	–	0.72	–	18.19	–
Nurkazgan	2,686	2,190	0.68	0.81	–	–	0.26	0.32	1.71	2.16
Total Central Region	5,856	5,016	0.99	1.10	1.67	2.81	0.55	0.60	6.70	6.58
East Region										
Orlovsky	1,566	1,538	3.66	3.67	3.83	4.99	1.03	1.17	53.44	58.99
Belousovsky	22	18	1.02	1.28	0.32	0.28	0.26	0.16	16.66	16.11
Irtyshsky	578	425	1.33	1.38	2.87	3.12	0.33	0.32	48.64	57.72
Nikolayevsky	581	603	0.86	1.05	3.63	3.47	0.43	0.28	31.65	34.05
Yubileyno-Snegirikhinsky	656	629	2.98	3.30	2.26	2.45	0.38	0.33	22.69	27.02
Artemyevsky	1,283	1,397	1.92	1.76	5.63	6.65	1.12	1.22	125.48	132.07
Total East Region	4,686	4,610	2.44	2.48	3.94	4.76	0.80	0.87	65.39	73.21
Total Kazakhmys Mining	33,432	32,935	1.01	1.09	3.55	4.58	0.66	0.73	17.69	20.06

[1] Totals only relate to producing mines.

(b) Coal mining

	Coal mined		Waste stripped		Strip ratio	
	2011 kt	2010 kt	2011 kbcm	2010 kbcm	2011 bcm:t	2010 bcm:t
Molodezhny	6,967	7,455	16,956	15,531	2.43	2.08
Kusheki	658	647	4,280	3,921	6.51	6.06
Total Kazakhmys Mining	7,625	8,102	21,236	19,452	2.79	2.40

2. Kazakhmys Mining – continued
(c) Copper processing

	Copper concentrate produced 2011 kt	Copper concentrate produced 2010 kt	Copper in concentrate 2011 %	Copper in concentrate 2010 %
Zhezkazgan Region				
Zhezkazgan No.1	208	218	37.9	39.4
Zhezkazgan No.2	132	166	37.4	39.3
Satpayev	57	79	27.1	24.5
Total Zhezkazgan Region	397	463	36.2	36.8
Central Region				
Balkhash	210	240	17.2	17.3
Karagaily (Abyz)	202	145	3.6	3.8
Karagaily (Akbastau)	25	37	5.7	8.8
Karagaily (Kosmurun)	33	41	5.9	8.7
Nurkazgan	82	82	19.0	18.8
Total Central Region	552	545	11.3	12.7
East Region				
Orlovsky	278	267	18.8	18.9
Belousovsky	75	77	16.1	16.4
Irtyshsky	35	28	18.2	17.6
Nikolayevsky	90	93	20.6	18.7
Total East Region	478	465	18.7	18.4
Own copper concentrate processed by third party	28	37	26.9	26.1
Total Kazakhmys Mining (own concentrate)	1,455	1,510	20.8	22.2
Purchased concentrate	5	10	48.6	30.6
Total Kazakhmys Mining (own and purchased concentrate)	1,460	1,520	20.8	22.2

(d) Zinc and precious metals processing

	Zinc concentrate produced		Zinc in concentrate		Silver[1]		Gold[1]	
	2011 kt	2010 kt	2011 %	2010 %	2011 g/t	2010 g/t	2011 g/t	2010 g/t
Zhezkazgan Region								
Zhezkazgan No.1	–	–	–	–	704.8	770.3	–	–
Zhezkazgan No.2	–	–	–	–	213.0	386.5	–	–
Satpayev	–	–	–	–	663.0	546.5	–	–
Total Zhezkazgan Region	–	–	–	–	535.4	557.2	–	–
Central Region								
Balkhash	–	–	–	–	93.0	84.4	2.6	2.5
Karagaily	16	13	40.7	40.1	71.8	82.1	7.0	6.2
Nurkazgan	–	–	–	–	37.8	36.8	5.5	5.4
Total Central Region	16	13	40.7	40.1	74.9	76.3	5.1	4.4
East Region								
Orlovsky	95	126	45.7	46.0	126.5	152.2	1.5	1.8
Belousovsky	14	14	37.0	37.8	87.2	81.3	1.2	1.1
Irtyshsky	22	19	47.0	45.2	666.2	684.5	2.9	2.9
Nikolayevsky	114	86	42.5	42.0	600.2	413.3	4.9	3.3
Artemyevsky (KazZinc)	50	105	51.2	51.5	1,444.0[3]	2,070.4[3]	8.7[3]	11.8[3]
Total East Region	295	350	43.8[2]	44.1[2]	248.6[2]	224.6[2]	2.2[2]	2.0[2]
Total Kazakhmys Mining (own and purchased concentrate)	311	363	44.9	46.1	284.5	321.5	4.0	3.7

1 Grade in grammes per tonne of copper concentrate.
2 Production only from own concentrators within East Region.
3 Includes gold and silver content in gravity concentrate toll processed by KazZinc from Artemyevsky ore.

Production and sales figures – continued

2. Kazakhmys Mining – continued
(e) Copper cathodes production

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2011 kt	2010 kt	2011 %	2010 %	2011 kt	2010 kt
Zhezkazgan Smelter						
Own concentrate	332	447	31.9	34.9	111	117
Purchased concentrate	–	–	–	–	–	–
Other[1]	–	–	–	–	–	–
Total Zhezkazgan Smelter	332	447	31.9	34.9	111	117
Balkhash Smelter						
Own concentrate	1,124	1,137	17.6	18.0	188	186
Purchased concentrate	5	10	47.6	29.7	2	3
Other[1]	1	1	68.8	5.8	–	–
Total Balkhash Smelter	1,130	1,148	17.8	18.1	190	189
Total Kazakhmys Mining (excluding tolling)	1,462	1,595	21.0	22.8	301	306
Tolling	125	70	5.4	5.3	7	3
Total Kazakhmys Mining (including tolling)	1,587	1,665	19.8	22.1	308	309

1 Includes materials (slag, scrap, etc.) and ore used directly in smelting process reprocessed at both the Zhezkazgan and Balkhash Smelters.

(f) Copper rod and acid production

	Copper rod		Acid production	
	2011 kt	2010 kt	2011 kt	2010 kt
Total Kazakhmys Mining (Zhezkazgan Smelter)	32	35	1,083	927

(g) Precious metal production

	Silver		Gold bar		Gold doré	
	2011 koz	2010 koz	2011 koz	2010 koz	2011 koz	2010 koz
Kazakhmys Mining[1]	13,137	14,127	118	127	33	43
Tolling	901	13	20	11	–	–
Total Kazakhmys Mining (including tolling)	14,038	14,140	138	138	33	43

1 Includes production from mines in the former Gold division: Central Mukur and Mizek.

(h) Other production

	2011	2010
Enamel wire (t)	1,243	822
Lead dust (t)	10,381	11,321

(i) Sales

	2011		2010	
	kt[1]	$ million	kt[1]	$ million
Copper cathode	265	2,318	282	2,110
Copper rod	28	252	35	274
Total copper cathodes equivalent sales	293	2,570	317	2,384
Zinc metal in concentrate	146	177	171	193
Silver (koz)[2]	13,526	479	13,552	271
Gold bar (koz)	53	79	135	164
Gold doré (koz)	33	54	42	55

1 Kilotonnes (unless otherwise stated).
2 Sales of by-product include production from mines in the former Gold division: Central Mukur and Mizek.

(j) Average realised prices

	2011	2010
Copper ($/t)	8,756	7,523
Zinc concentrate ($/t)	1,215	1,133
Silver ($/oz)	35.5	20.0
Gold ($/oz)	1,537	1,233

3. Kazakhmys Power – production and sales

	2011	2010
Ekibastuz GRES-1		
Electricity power generation (GWh)	13,402	11,703
Net power generated (GWh)	12,697	11,065
Net power generated attributable to Kazakhmys[1] (GWh)	6,349	6,528
Realised tariff prices (Tenge/kWh)	5.38	4.49
Coal		
Coal production[2] (kt)	1,856	5,307
Captive Power Stations		
Electricity power generation (GWh)	6,452	6,448
Net power generated (GWh)	5,578	5,589
Heating power (KGcal)	3,716	3,874
Realised tariff prices (Tenge/kWh)	3.42	2.89

[1] Represents 100% of net power generated until the 50% disposal of the business on 26 February 2010 and 50% of the net power generated to 31 December 2010 and for the 12 months to 31 December 2011.

[2] Represents coal produced by Maikuben West coal mine until its disposal on 17 May 2011.

4. MKM – production and sales

	2011		2010	
	Production kt	Sales kt	Production kt	Sales kt
Wire rod	103	101	91	94
Drawn wire	42	42	43	43
Total wire	145	143	134	137
Pre-rolled	8	8	8	8
Sheets	11	18	10	16
Strips	60	52	60	52
Total flat	79	78	78	76
Tubes	16	15	15	15
Bars	25	26	27	26
Total tubes and bars	41	41	42	41
Total MKM	265	262	254	254

Mining reserves and resources

Year ended 31 December 2011

Reserves and resources estimation methods

Kazakhmys Mining

The Republic of Kazakhstan inherited the classification system and estimation methods for minerals established by the Former Soviet Union (FSU). Updated "Regulations for the Classification of Non-ferrous Metals Reserves" became law in Kazakhstan in 2006. In practice, this means that the statements of reserves and resources developed by Kazakhmys and the mining plans to which they relate must be submitted for approval to the corresponding committees of the Ministry of Industry and New Technologies for which adherence to the standardised national system of reserves and resources estimation is mandatory.

As part of the exploitation licence for each mineral deposit, a set of "Conditions for Estimation of Reserves" are prepared by a national design institute and submitted for approval by the State. The Conditions apply a well-defined process of classifying the specific deposit into one of three deposit categories, subject to which, the principles for exploration and classification of reserves and resources have been established. The "Conditions for Estimation of Reserves" for each deposit specify the minimum thickness for exploitation of the ore body and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties.

Reserves and resources have traditionally been estimated by Kazakhmys according to the FSU "Classification and Estimation Methods for Reserves." It is apparent that there is a growing trend towards greater flexibility and discussion with state authorities with respect to reserve estimation methods. This has been reflected in the increased use of computers and associated software by Kazakhmys in maintaining records about reserves at the operating mines and using databases linked to modelling software to assist in exploration and preliminary resource estimation. IMC recognises this as an important step to achieve verifiable and internally consistent estimates.

IMC has reviewed the reserves statements of Kazakhmys and has restated them in accordance with the criteria required to meet JORC standards. "Guidelines on the Alignment of Russian minerals reporting standards and the CRIRSCO Template" were published during 2010 as a joint initiative of the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) and the Russian Federal Government Agency State Commission on Mineral Reserves. The guidelines have been used to align categories of reserves (C2, C1, B and A) with appropriate Mineral Resource categories (Measured, Indicated and Inferred). The role of the JORC Competent Person, however, remains as being responsible for any estimate that is reported.

Mineral Resources, by definition, must have reasonable prospects for eventual economic extraction. In general, therefore, the total active balance resource, where no unresolvable problems are foreseen, is considered as the total Indicated and Measured Mineral Resource at a mine.

At the mature Zhezkazgan mines, the amount of commercial reserves that have been fully developed for extraction is equated to the Proved Ore Reserve (inclusive of loss and dilution factors). The Measured Mineral Resource which corresponds to the Proved Ore Reserve can be derived, as can the Indicated Mineral Resource and Probable Ore Reserve components.

Silver grades for the Zhezkazgan mines are stated for the total Mineral Resource as the accuracy of the estimate is not as precise as for copper. The silver grade value is considered to be appropriate to an Indicated Resource level of confidence but is applied to Measured Resource categories for the sake of presenting average values for silver across the Company.

Generally, at other Kazakhmys mines, the active balance reserve is divided into respective categories and the total of C1 (plus A and B) categories are assigned to Measured Mineral Resource and C2 category is assigned to Indicated Mineral Resource. Conversion of Measured Mineral Resource to Proved Ore Reserve and Indicated Mineral Resource to Probable Ore Reserve is made by the application of appropriate modifying factors for loss and dilution. Another important consideration is the level of planning and legal approval for the exploitation of a particular reserve block. For operating mines, Mineral Resources have been converted to Ore Reserves where the reserve block can be exploited from existing capital development (shafts, declines, haulages etc), or where a feasibility study for the construction of new capital development has been completed.

The assessment of Inferred Resources for Kazakhmys is incomplete. The mines do not keep records of prognosticated reserves, categories P1, P2 and P3, which may include material that could be considered equivalent to JORC category Inferred Resources. Some Inferred Resources are shown in the tabulations where the competent person has deemed that the degree of confidence in the estimate is appropriate to that category.

The foregoing tabulations show new projects in addition to operating mines. Projects for the purpose of this report were defined at the outset by Kazakhmys and include greenfield sites and brownfield sites near to existing mines. New projects have to demonstrate that feasibility studies have been completed and that appropriate legal approvals have been granted before reserves can be included in the statement.

These estimates form the basis for the process of restatement of reserves in accordance with JORC compliant criteria. All reserves quoted in the following tables are discounted for ore losses and dilution. Resources are not discounted for losses and dilution and are inclusive of reserves. All figures in reserves and resources are in metric tonnes and are dated 31 December 2011.

IMC notes that Kazakhmys will be instigating a programme of feasibility studies and resource reviews during 2012 across all areas of the Company. Most of the studies on mines and projects are due to be completed by the end of 2012 in time for the results to be incorporated into next year's report. Because of the scale of the task the update of the Zhezkazgan resources is expected to take three years to complete.

Kazakhmys Mining gold resources

Following international convention, gold resources reported in this report are *in situ* estimates, while the reserves make due allowance for mining recovery and dilution, based on recent operational experience or assumptions made in feasibility studies. Reserves are contained within the resources.

Kazakhmys Mining
Summary of metal reserves

Region		Reserves[1] kt 2011	Reserves[1] kt 2010	Copper % 2011	Copper % 2010	Zinc % 2011	Zinc % 2010	Gold g/t 2011	Gold g/t 2010	Silver[2] g/t 2011	Silver[2] g/t 2010	Lead % 2011	Lead % 2010
Zhezkazgan Region	Proved	161,278	222,374	0.70	0.69	–	–	–	–	–	–	–	–
	Probable	183,209	115,098	0.75	0.72	–	–	–	–	–	–	–	–
	Total	344,487	337,472	0.73	0.70	–	–	–	–	10.69	9.10	–	–
Central Region	Proved	201,408	182,831	0.96	0.77	0.07	0.04	0.35	0.31	2.78	2.23	–	–
	Probable	139,519	141,069	0.53	0.60	0.02	–	0.11	0.12	1.31	0.80	–	–
	Total	340,927	323,900	0.79	0.70	0.05	0.06	0.25	0.23	2.18	1.61	–	–
East Region	Proved	34,409	42,405	3.06	2.60	4.02	4.23	0.84	0.73	51.77	54.20	1.16	1.11
	Probable	8,036	14,039	2.10	1.59	2.49	2.39	0.30	0.29	43.76	37.25	0.44	0.44
	Total	42,445	56,444	2.88	2.35	3.73	3.77	0.74	0.62	50.25	49.99	1.02	0.94
Total Kazakhmys Mining	Proved	397,095	447,610	1.04	0.90	0.38	0.40	0.25	0.20	9.66	6.04	0.10	0.10
	Probable	330,764	270,206	0.69	0.71	0.07	0.12	0.05	0.08	8.23	2.35	0.01	0.02
	Total	727,859	717,816	0.88	0.83	0.24	0.30	0.16	0.15	9.01	8.93	0.06	0.07
Analysed as:													
Operating mines	Proved	397,095	447,610	1.04	0.90	0.38	0.40	0.25	0.20	9.66	6.04	0.10	0.10
	Probable	330,764	270,206	0.69	0.71	0.07	0.12	0.05	0.08	8.23	2.35	0.01	0.02
	Total	727,859	717,816	0.88	0.83	0.24	0.30	0.16	0.15	9.01	8.93	0.06	0.07
Development projects	Proved	–	–	–	–	–	–	–	–	–	–	–	–
	Probable	–	–	–	–	–	–	–	–	–	–	–	–
	Total	–	–	–	–	–	–	–	–	–	–	–	–

1 Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

2 Silver values for the Zhezkazgan Region are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

Mining reserves and resources – continued

Summary of metal resources

Region		Resources[1] kt 2011	Resources[1] kt 2010	Copper % 2011	Copper % 2010	Zinc % 2011	Zinc % 2010	Gold g/t 2011	Gold g/t 2010	Silver[2] g/t 2011	Silver[2] g/t 2010	Lead % 2011	Lead % 2010
Zhezkazgan Region	Measured	330,515	366,814	1.07	1.03	–	–	–	–	–	–	–	–
	Indicated	274,945	244,052	1.08	1.06	–	–	–	–	–	–	–	–
	Total	605,460	610,866	1.08	1.04	–	–	–	–	14.09	13.97	–	–
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–
Central Region	Measured	1,602,334	1,585,500	0.48	0.49	0.04	0.02	0.10	0.06	1.93	0.61	0.02	–
	Indicated	2,965,308	2,918,496	0.39	0.39	–	–	0.06	0.05	1.08	0.12	–	–
	Total	4,567,641	4,503,996	0.42	0.42	0.02	0.01	0.08	0.05	1.38	0.31	0.01	–
	Inferred	830,412	808,150	0.30	0.30	–	–	0.09	0.04	0.83	1.11	–	–
East Region	Measured	36,802	42,423	3.10	2.82	4.46	4.91	0.94	0.84	57.86	63.15	1.25	1.28
	Indicated	40,930	41,175	1.85	1.85	4.67	4.64	0.53	0.60	68.62	71.55	1.18	1.16
	Total	77,732	83,598	2.44	2.34	4.57	4.78	0.72	0.72	63.53	67.29	1.21	1.22
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–
Total Kazakhmys Mining	Measured	1,969,651	1,994,737	0.63	0.64	0.12	0.12	0.10	0.07	4.79	1.83	0.04	0.03
	Indicated	3,281,182	3,203,723	0.47	0.46	0.06	0.06	0.06	0.05	3.15	1.03	0.02	0.01
	Total	5,250,833	5,198,460	0.53	0.53	0.08	0.09	0.08	0.06	3.77	2.99	0.02	0.02
	Inferred	830,412	808,150	0.30	0.30	–	–	0.09	0.04	0.83	1.11	–	–
Analysed as:													
Operating mines[3]	Measured	443,908	499,843	1.12	1.14	0.42	0.45	0.28	0.24	11.55	6.50	0.11	0.11
	Indicated	405,921	478,577	0.83	0.88	0.41	0.37	0.13	0.19	13.54	6.45	0.11	0.09
	Total	849,829	978,420	0.98	1.01	0.42	0.41	0.21	0.22	12.50	12.91	0.11	0.10
	Inferred	–	–	–	–	–	–	–	–	–	–	–	–
Development projects[3]	Measured	1,525,743	1,494,894	0.48	0.47	0.03	0.01	0.05	0.01	2.83	0.26	0.02	–
	Indicated	2,875,262	2,725,146	0.42	0.39	0.01	0.01	0.05	0.03	1.68	0.08	–	–
	Total	4,401,004	4,220,040	0.44	0.42	0.02	0.01	0.05	0.02	2.08	0.69	0.01	–
	Inferred	830,412	808,150	0.30	0.30	–	–	0.09	0.04	0.83	1.11	–	–

1 Resources include undiscounted reserves. No ore loss or dilution has been included.

2 Silver values for the Zhezkazgan Region are not available by blocks, only at the borehole level and have been averaged over each operation by Kazakhmys LLC.

3 Development projects relate to Aidarlay, Aktogay, Anissimov Kluch, Bozshakol, Kosmurun, Zhaisan and Zhilandy. The Itauz, Karagaily, Mizek underground, Nikolayevsky North, Nurkazgan East, Sayak IV, Zhaisan and Zhomart phase II projects have also been classified as development projects in 2011. In 2010, mine extensions are included within the original ore body as part of operating mines.

Kazakhmys Mining Gold Reserves

Summary of metal reserves

		Reserves[1] kt 2011	Reserves[1] kt 2010	Gold g/t 2011	Gold g/t 2010	Silver g/t 2011	Silver g/t 2010	Copper % 2011	Copper % 2010	Gold equivalent[2] Moz 2011	Gold equivalent[2] Moz 2010
Operating mines[3]	Proved	–	–	–	–	–	–	–	–	–	–
	Probable	283	922	1.18	1.23	–	–	–	–	0.01	0.04
	Total	283	922	1.18	1.23	–	–	–	–	0.01	0.04
Development project[4]	Proved	6,639	6,639	1.43	1.43	8.54	8.54	0.84	0.84	0.64	0.67
	Probable	8,788	8,788	1.36	1.36	8.36	8.36	0.84	0.84	0.83	0.87
	Total	15,427	15,427	1.39	1.39	8.44	8.44	0.84	0.84	1.47	1.54
Total Kazakhmys Mining Gold Reserves	Provsed	6,639	6,639	1.43	1.43	8.54	8.54	0.84	0.84	0.64	0.67
	Probable	9,071	9,710	1.35	1.34	8.10	7.57	0.82	0.76	0.84	0.91
	Total	15,710	16,349	1.38	1.38	8.28	7.96	0.83	0.80	1.48	1.58

1 Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.
2 Gold equivalent ounces have been calculated based on the following prices: copper $5,500 (2010: $5,500) per tonne, gold $1,000 (2010: $900) per ounce and silver $16.00 (2010: $13.50) per ounce.
3 Operating mines consist of the Mukur mine.
4 Development project relates to Bozymchak.

Summary of metal resources

		Resources[1] kt 2011	Resources[1] kt 2010	Gold g/t 2011	Gold g/t 2010	Silver g/t 2011	Silver g/t 2010	Copper % 2011	Copper % 2010	Gold equivalent[2] Moz 2011	Gold equivalent[2] Moz 2010
Operating mines[3]	Measured	1,592	5,031	1.72	2.47	5.10	5.79	0.52	0.71	0.14	0.63
	Indicated	1,992	5,207	1.51	2.15	3.16	4.22	0.42	0.55	0.15	0.55
	Total	3,584	10,238	1.61	2.30	4.03	4.99	0.46	0.63	0.28	1.18
	Inferred	704	2,711	1.70	2.30	4.97	4.59	0.51	0.57	0.06	0.30
Development project[4]	Measured	6,240	6,240	1.63	1.63	9.77	9.77	0.96	0.96	0.69	0.72
	Indicated	13,714	13,714	1.52	1.52	7.45	7.45	0.80	0.80	1.33	1.39
	Total	19,954	19,954	1.56	1.56	8.18	8.18	0.85	0.85	2.02	2.11
	Inferred	5,920	6,049	1.37	1.34	6.97	30.31	0.65	0.65	0.49	0.59
Total Kazakhmys Mining Gold Reserves	Measured	7,832	11,271	1.65	2.01	8.82	8.00	0.87	0.85	0.83	1.35
	Indicated	15,706	18,921	1.52	1.70	6.91	6.56	0.75	0.73	1.47	1.94
	Total	23,538	30,192	1.57	1.81	7.55	7.10	0.79	0.78	2.30	3.29
	Inferred	6,624	8,760	1.41	1.63	6.76	22.31	0.64	0.62	0.55	0.89

1 Resources include undiscounted reserves. No ore loss or dilution has been included.
2 Gold equivalent ounces have been calculated based on the following prices: copper $5,500 (2010: $5,500) per tonne, gold $1,000 (2010: $900) per ounce and silver $16.00 (2010: $13.50) per ounce.
3 Operating mines consist of the Mizek and Mukur mines (2010: Mizek, Mukur and Zhaima mines).
4 Development project relates to Bozymchak (2010: Akjilga and Bozymchak).

Coal reserves

		Reserves[1] MT 2011	Reserves[1] MT 2010	Ash ad[2] kcal/kg 2011	Ash ad[2] kcal/kg 2010	CV ncvar[3] g/t 2011	CV ncvar[3] g/t 2010	Sulphur % 2011	Sulphur % 2010
Kazakhmys Mining[4]	Proved	282.1	289.2	–	–	–	–	–	–
	Probable	99.9	99.9	–	–	–	–	–	–
	Total	382.0	389.1	44.8	45.7	3,680	3,633	0.5	0.5

1 Includes coal loss and increase in ash content.
2 ad – refers to air dried.
3 ncvar – refers to net calorific value as received.
4 Consists of the Molodezhny and Kusheki coal mines which are part of the Central Region.

Revision of reserves and resources statement to 31 December 2011

IMC Group Consulting Ltd ("IMC") has undertaken a review of the reserve and resource estimates prepared by Kazakhmys PLC (Kazakhmys or the "Company"), as the basis for the preparation of a statement of Ore Reserves and Mineral Resources as at 31 December 2011.

The annual review of reserves and resources carried out by IMC is predominantly focused each year on depletion through production, analysis of company plans, exploration and other changes affecting the reserves and resources.

The consideration of Mineral Resources is based on the JORC definition which says that a Mineral Resource is an occurrence of minerals in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. In converting Mineral Resources to Ore Reserves in accordance with the JORC code IMC has to consider a number of "Modifying Factors" and, quoting from the JORC code, "An Ore Reserve is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified."

IMC do not consider it necessary to visit every operation each year for the purposes of verifying the requirements of the Modifying Factors. A full due diligence of all the Company's mining and processing assets and development projects was conducted by IMC in 2010 and the results of the study formed the basis of a Mineral Experts Report (MER) which was used by the Company for their 2010 Annual Report and Accounts and their listing on the Hong Kong Stock Exchange in 2011. The observations and conclusions made by IMC in the MER are still considered to be largely relevant at the end of 2011, and any discrepancies from the 2010 benchmark were accommodated during discussion with the Company's technical specialists.

The Statement of Ore Reserves and Mineral Resources is restated in accordance with the criteria of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004), published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and collaborating institutions (the "JORC Code").

IMC is satisfied, from the audit undertaken, that the recently revised estimates of reserves and resources prepared by the Company, are in accordance with the classification system required by law in the Republic of Kazakhstan and that, correspondingly, the estimates have a consistent basis for expressing the degree of confidence for stating quantities of exploitable minerals at specific grades of metal content. On the basis of the estimates supplied by the Company, IMC has applied the same technical criteria as utilised in the 2010 audit, for preparation of the restatement of ore reserves and mineral resources as at 31 December 2011, in accordance with the reporting criteria of the JORC Code.

Guidelines for the alignment of Russian minerals reporting standards and the JORC Code were published in 2010 and again these have been applied in the preparation of the Kazakhmys Ore Reserve and Mineral Resource Statement. This is considered appropriate as all the mineral deposits currently being mined, or developed, by Kazakhmys were explored during the Soviet era and reserves approved during that era are still referenced. The aim of the new guidelines is to provide a standard reporting terminology for use in disclosure of the assets of mining companies to stock markets.

John S Warwick
BSC (Hons) FIMMM, CENG, EUR ING
Director, IMC Group Consulting Ltd
28 February 2012

IMC Group Consulting Ltd
Icon Business Centre
Lake View Drive
Sherwood Park
Nottinghamshire NG15 0DT
United Kingdom

Shareholder Information

Annual General Meeting
The Annual General Meeting of the Company will be held at 12.15pm on 11 May 2012 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom. The Notice of Meeting and the Form of Proxy are enclosed with this Annual Report. The Notice of Meeting can also be found in the Investors and Media section on the Kazakhmys website www.kazakhmys.com.

Electronic shareholder communications
Kazakhmys uses its website www.kazakhmys.com as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner.

Electronic communications allow shareholders to access information instantly as well as helping Kazakhmys reduce its costs and its impact on the environment. Shareholders can sign up for electronic communications via Computershare's Investor Centre website at www.investorcentre.co.uk. Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's UK or Hong Kong registrar.

In addition to enabling shareholders to register to receive communications by email, Computershare's Investor Centre website provides a facility for shareholders to manage their shareholding online by allowing them to:

- view their share balance;
- change their address;
- view payment and tax information; and
- update payment instructions.

Computershare's Investor Centre website also offers a share dealing service for shareholders on the UK register.

Trading account
Shareholders on the Company's UK register can open a trading account by contacting the Company's UK registrar. This service allows shareholders to hold their shares electronically rather than in certificated form. There are no set up or administration fees and certificates can be deposited free of charge (£35 per line of stock fee applies to transfers out). Additional highlights include:

- ability to trade online or over the telephone;
- £20 fee per transaction (telephone commission 1%, minimum £20);
- access to international markets;
- trade in or hold up to seven currencies; and
- limit orders, allowing shareholders to place trade instructions outside of London Stock Exchange opening hours.

The value of your investments may go down as well as up. You may not get back all the funds that you invest. The potential for profit or loss from transactions on international markets or in foreign denominated currencies will be affected by fluctuations in exchange rates.

Electronic voting
Shareholders can submit proxies for the 2012 Annual General Meeting electronically by logging on to www.investorcentre.co.uk/eproxy. Electronic proxy appointments must be received by the Company's UK or Hong Kong registrar no later than 12.15pm UK time (4.15pm Hong Kong time) on Wednesday 9 May 2012 (or not less than 48 hours before the time fixed for any adjourned meeting).

Website
A wide range of information on Kazakhmys is available at www.kazakhmys.com including:

- financial information – annual and interim reports as well as production reports;
- share price information – current trading details and historical charts;
- shareholder information – dividend information, AGM results and details of the Company's UK and Hong Kong registrars; and
- press releases – current and historical.

Registrars
For information about proxy voting, dividends and to report changes in personal details, shareholders should contact:

For shareholders holding their shares on the UK register:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
United Kingdom

Tel: +44 (0)870 707 1100
Fax: +44 (0)870 703 6101
Email: web.queries@computershare.co.uk

For shareholders holding their shares on the Hong Kong register:

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Tel: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

For shareholders holding their shares on the Kazakh Stock Exchange:

Shareholder Queries
Kazakhmys PLC
6th Floor
Cardinal Place
100 Victoria Street
London SW1E 5JL
United Kingdom

Tel: +44 (0)20 7901 7898
Email: shareholder@kazakhmys.com

Unsolicited telephone calls and correspondence

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target US or UK shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive. If shareholders receive any unsolicited investment advice, they can check if the person or organisation is properly authorised by the Financial Services Authority (FSA) at www.fsa.gov.uk/fsaregister and the matter may be reported to the FSA at www.fsa.gov.uk/scams, or by calling 0845 606 1234 (UK) or +44 20 7066 1000 (international). Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Dividends

The Board recommends the payment of a final dividend of 20.0 US cents per ordinary share (2010: 16.0 US cents). If approved, the dividend will be paid on 15 May 2012 to shareholders on the UK register of members at the close of business in the UK on 20 April 2012, and to shareholders on the Hong Kong register of members at the opening of business in Hong Kong on 20 April 2012. An interim dividend of 8.0 US cents per share (2010: 6.0 US cents) was paid on 4 October 2011.

Currency option and dividend mandate

The Company declares dividends in US dollars. For those shareholders who hold their shares on the UK register the default currency for receipt of their dividends is US dollars, although they can elect to receive their dividends in UK pounds sterling. For those shareholders who wish to receive their dividend in UK pounds sterling, they should contact the Company's UK registrar to request a currency election form. For the final dividend payable on 15 May 2012, a completed currency election form must be received by the Company's UK registrar no later than 3.00pm on 23 April 2012.

For those shareholders who hold their shares on the Hong Kong register the default currency for receipt of their dividends is Hong Kong dollars, although they can elect to receive their dividends in US dollars. Currency election forms for the final dividend will be dispatched by the Company's Hong Kong register to shareholders on the Hong Kong register on 20 April 2012 and must be returned by 8 May 2012. Shareholders on the Hong Kong register can also contact the Company's Hong Kong registrar to request a currency election form.

Shareholders on the UK register can arrange for dividends to be paid directly into a UK bank or building society account. To take advantage of this facility, you should contact the Company's UK registrar to request a dividend mandate form or register online at www.investorcentre.co.uk. The arrangement is only available in respect of dividends paid in UK pounds sterling.

Half-yearly results

The half-yearly results, to be announced on the London Stock Exchange, Hong Kong Stock Exchange and Kazakh Stock Exchange in August 2012, will continue to be available on the Company's website in the form of a press release and not issued to shareholders in hard copy. Shareholders that have signed up for electronic shareholder communication will be sent a notification when these are available on the website.

Chinese translation

A Chinese translation of the Annual Report and Accounts will be available upon request after 1 June 2012. If you would like a Chinese version of the 2011 Annual Report and Accounts, please contact:

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

If there is a dispute between the Chinese translation and the English version of the Annual Report and Accounts, the English text shall prevail.

Company Secretary

Robert Welch
Tel: +44 (0)20 7901 7800
Email: robert.welch@kazakhmys.com

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Kazakhmys PLC
6th Floor
Cardinal Place
100 Victoria Street
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Registered number: 05180783

Joint corporate brokers

J. P. Morgan Cazenove Limited
10 Aldermanbury
London EC2V 7RF
United Kingdom

Citigroup Global Markets Limited
33 Canada Square
London E14 5LB
United Kingdom

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Shareholder interests at 31 December 2011

Number of shareholders: 1,944

Number of shares in issue: 535,417,961

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	961	49.44	0.07
1,001 to 5,000	356	18.31	0.16
5,001 to 10,000	120	6.17	0.16
10,001 to 100,000	292	15.02	2.10
Over 100,000	215	11.06	97.51
Total	1,944	100.00	100.00

By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	674	34.68	0.29
Banks/nominees	1,221	62.81	82.87
Pension funds	1	0.05	0.00
Investment/unit trusts	3	0.15	0.10
Insurance companies	4	0.21	0.00
Corporate holders	37	1.90	15.65
Hong Kong Share Register	3	0.15	0.05
Treasury Account	1	0.05	1.04
Total	1,944	100.00	100.00

Financial calendar

Ex-dividend date	18 April 2012
Record date	20 April 2012
Final dividend payable	15 May 2012
Interim dividend payable	October 2012

Events calendar

Q1 Interim Management Statement	April 2012
Annual General Meeting	11 May 2012
Half-yearly results announced	August 2012
Q3 Interim Management Statement	October 2012

bcm:t
Bank cubic metres excavated to recover one metric tonne of coal

Board or Board of Directors
the Board of Directors of the Company

Capital employed
the aggregate of equity attributable to owners of the Company, minority interests and borrowings

Cash cost of copper after by-product credits
the total of cash operating costs excluding purchased concentrate less by-product revenues, divided by the volume of copper cathode equivalent sales

CDB
the China Development Bank Corporation

CIT
Corporate income tax

CO_2
Carbon dioxide

Combined Code
the Combined Code on Corporate Governance issued by the Financial Reporting Council

Committee or Committees
All or any of the Audit, Group Health, Safety and Environment, Nomination or Remuneration Committees depending on the context in which the reference is used

Company or Kazakhmys
Kazakhmys PLC

CREST
An electronic means of settling share transactions and registering investors on a company's register of members

CRIRSCO guidelines
Guidelines on the alignment of Russian minerals reporting standards and the CRIRSCO Template were published during 2010 as a joint initiative of the Committee for Mineral Resources International Reporting Standards (CRIRSCO) and the Russian Federal Government Agency State Commission on Mineral Reserves

Directors
the Directors of the Company

dollar or $ or USD
United States dollars, the currency of the United States of America

EBITDA
Earnings before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax

Ekibastuz GRES-1
Ekibastuz GRES-1 LLP

ENRC or ENRC PLC
Eurasian Natural Resources Corporation PLC

EPS
Earnings per share

EPS based on Underlying Profit
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business, and their resulting taxation and non-controlling interest impact, divided by the weighted average number of ordinary shares in issue during the period

EPT
Excess profits tax

ESP
Electrostatic precipitator

EURIBOR
European Inter Bank Offer Rate

Euro or €
Euro, the currency of certain member states of the European Union

Free Cash Flow
Net cash flow from operating activities less sustaining capital expenditure on tangible and intangible assets

FTSE 100
Financial Times Stock Exchange top 100 companies

g/t
Grammes per metric tonne

Government
the Government of the Republic of Kazakhstan

the Group
Kazakhmys PLC and its subsidiary companies

GHSE Committee
Group Health, Safety and Environment Committee

Group EBITDA
Earnings before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax adjusted for special items and including the share of EBITDA of the joint venture and associate

GVA
Gross value added, which is calculated as turnover less the input cost of copper cathode

GW
Gigawatt, a unit of power equal to one billion watts

GWh
Gigawatt-hour, one gigawatt-hour represents one hour of electricity consumed at a constant rate of one gigawatt

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

JORC
Joint Ore Reserves Committee

Kazakhmys Corporation LLC or Kazakhmys LLC
Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan

Kazakhmys Copper
Previously considered an operating segment of the Group, which included the processing and sale of copper and other metals, onward sales to third parties and exploration and development of base metal deposits in Central Asia. The Kazakhmys Copper operations are now included within the Kazakhmys Mining operating segment.

Kazakhmys Gold
Previously considered an operating segment of the Group, which included the processing of gold ore into refined ore and exploration and development activity in the precious metals sector in Central Asia. The Kazakhmys Gold operations are now included within the Kazakhmys Mining operating segment

Kazakhmys Mining
An operating segment of the Group, which comprises all entities and functions within the Group responsible for the exploration, evaluation, development, mining and processing of the Group's mineral resources and sale of the Group's metal products. The operating segment represents the previous Kazakhmys Copper operating segment and includes the previous Kazakhmys Gold operating segment but excludes the Group's captive power stations, which are now included within the Kazakhmys Power operating segment

Kazakhmys Petroleum
An operating segment of the Group, until its disposal on 23 December 2011, which held a licence to conduct oil and gas exploration and development activity in the Eastern Akzhar exploration block in western Kazakhstan

Kazakhmys Power
An operating segment of the Group, which includes the Group's captive power stations, the Ekibastuz GRES-1 coal-fired power plant joint venture and Maikuben West coal mine (until 17 May 2011), whose principal activity is the sale of electricity to external customers and internally to Kazakhmys Mining

Kazakhstan
the Republic of Kazakhstan

kbcm
Thousand bank cubic metres

KEGOC
Kazakhstan Electricity Grid Operating Company

kg
Kilogramme

KGcal
Thousand gigacalories, units of heat energy

koz
Thousand ounces

kt
Thousand metric tonnes

km
Kilometres

km²
Square kilometres

KPI
Key performance indicator

kW
kilowatt, a unit of power equal to one thousand watts

kWh
kilowatt hour, one kilowatt hour represents one hour of electricity consumed at a constant rate of one kilowatt

lb
pound, unit of weight

LBMA
London Bullion Market Association

LIBOR
London Inter Bank Offer Rate

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

LME
London Metal Exchange

megalitre
Thousand cubic metres

MET
Mineral extraction tax

MKM
MKM Mansfelder Kupfer und Messing GmbH, the Group's operating subsidiary in the Federal Republic of Germany and an operating segment of the Group, which manufactures copper and copper alloy semi-finished products

Moz
Million ounces

MT
Million metric tonnes

MW
Megawatt, a unit of power equivalent to one million watts

National Bank
The National Bank of Kazakhstan

Net dependable capacity
Maximum capacity sustained by a unit in a specified period modified for seasonal limitations and reduced by the capacity required for the plant

New Code
The UK Corporate Governance Code issued by the Financial Reporting Council

NO_x
Nitrogen oxides

Ounce or oz
A troy ounce, which equates to 31.1035 grammes

PXF
Pre-export finance debt facility

$/t or $/tonne
US dollars per metric tonne

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

Segmental EBITDA
Earnings before interest, taxation, depreciation, depletion, amortisation and mineral extraction tax from the Group's operating segments, including the share of EBITDA of the joint venture but excluding the share of EBITDA of the associate

SO_2
Sulphur dioxide

Special items
Those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 10 to the financial statements

t
metric tonnes

tenge or KZT
The official currency of the Republic of Kazakhstan

UK
United Kingdom

Underlying Profit
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and non-controlling interest effects. Underlying Profit is set out in note 16 to the financial statements

USc/lb
US cents per pound

Cautionary comment concerning forward-looking statements

This Annual Report includes forward-looking statements with respect to the business, strategy and plans of Kazakhmys and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause actual results, performance or achievements of Kazakhmys to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Listing Rules and applicable law, Kazakhmys does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this Annual Report.

For all the latest information

If you would like to find out more about our business, visit our website at:
www.kazakhmys.com

Corporate Website

For the latest information on our operations, performance, growth projects and corporate responsibility, please visit:

www.kazakhmys.com

Online Annual Report 2011

Our Annual Report and Accounts 2011 is also available in HTML and PDF format at:

http://ara2011.kazakhmys.com

Corporate Responsibility

Further information on our commitment to corporate responsibility is available at:

www.kazakhmys.com/en/corporate_responsibility

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