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## **KAZ MINERALS ACQUIRES BAIMSKAYA COPPER PROJECT**

KAZ Minerals announces that it has agreed to acquire the Baimskaya copper project in the Chukotka region of Russia for \$900 million in cash and shares, comprising Initial Consideration of \$675 million and Deferred Consideration of \$225 million.

### **Globally significant copper project**

- Baimskaya is one of the world's most significant undeveloped copper assets with the potential to become a large scale, low cost, open pit copper mine
- JORC resources of 9.5 Mt of copper at an average grade of 0.43% and 16.5 Moz of gold at an average grade of 0.23 g/t
- Average annual production over first ten years of operations expected to be 250 kt copper and 400 koz gold, or 330 kt Copper Equivalent Production<sup>1</sup>, with a mine life of approximately 25 years, first quartile operating costs and higher grades in the first ten years of operations
- Pre-feasibility study completed by Fluor
- Capital expenditure to develop the mine estimated at \$5.5 billion<sup>2</sup>, subject to feasibility study
- Located in a region identified by the Russian Government as strategically important for economic development, Project expected to benefit from state infrastructure development and tax incentives
- Development strategy, including financing and potential partnering options, to be finalised during feasibility study
- Significant NPV uplift expected at an attractive IRR

### **Deal structure overview**

- Consideration structure establishes a strong incentive for the Vendor to assist in delivery of the Project and aligns interests with all shareholders
- Vendor will not contribute to development capital expenditure due to Deferred Consideration structure
- Initial Consideration of \$675 million for a 75% interest in the Project
  - \$436 million in cash
  - 22.3 million new KAZ Minerals shares to be issued to Vendor or its affiliates, representing 5.0% of current issued share capital<sup>3</sup>, valued at \$239 million<sup>4</sup> and subject to a three-year lock-in agreement
  - To be paid at Initial Completion, expected in the first half of 2019, after obtaining anti-monopoly and other regulatory approvals and satisfaction of certain other conditions
- Deferred Consideration of \$225 million in cash or shares<sup>4</sup> for the remaining 25% interest in the Project
  - If Project Delivery Conditions are satisfied before 31 March 2029, Deferred Equity Consideration of up to 21.0 million shares is payable on the date of Commercial Production, representing up to 4.7% of issued share capital<sup>3</sup>
  - Project Delivery Conditions relate to state construction of transport and power infrastructure, confirmation of federal tax incentives and demonstration of year-round shipment from the port of Pevek
  - If Project Delivery Conditions are not satisfied, Deferred Cash Consideration of \$225 million is payable on the Long Stop Date of 31 March 2029

Oleg Novachuk, Chair, said: "The acquisition of Baimskaya marks the next stage of the transformation of KAZ Minerals. The development of this new project in Russia will enable the Group to continue its industry leading growth, delivering both value and volume as the copper market is forecast to enter a period of significant supply deficit. Through our successful execution of the Bozshakol and Aktogay projects in Kazakhstan we have built a track record for project execution which makes KAZ Minerals the ideal platform to develop this globally significant asset."

A presentation for analysts will be held at 11:00am UK time on 2 August 2018, with a webcast of the presentation available on [www.kazminerals.com](http://www.kazminerals.com). A conference call facility will also be available, to participate in listen-only mode please use the following dial-in details:

Conference call dial in - +44 (0) 20 3003 2701

Password - 4667365#

Webcast - <http://view-w.tv/p/834-1089-20115/en>

Presentation download - <http://www.kazminerals.com/investors/presentation-library/>

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#### NOTES TO EDITORS

**KAZ Minerals** is a high growth company focused on large scale, low cost, open pit copper mining. It operates the Bozshakol and Aktogay open pit copper mines in the Pavlodar and East Region of Kazakhstan, three underground mines and associated concentrators in the East Region of Kazakhstan and the Bozymchak copper-gold mine in Kyrgyzstan. In 2017, total copper production was 259 kt with by-products of 58 kt of zinc in concentrate, 179 koz of gold and 3,506 koz of silver.

The Group's new operations at Bozshakol and Aktogay have delivered one of the highest growth rates in the industry and transformed KAZ Minerals into a company dominated by world class, open pit copper mines.

Bozshakol is a first quartile asset on the global cost curve with an annual ore processing capacity of 30 million tonnes and a remaining mine life of 39 years at an average copper grade of 0.35%. The mine and processing facilities will produce an average of 100 kt of copper cathode equivalent and 120 koz of gold in concentrate per year over the first 10 years of operations.

Aktogay is a large scale, open pit mine similar to Bozshakol, with a remaining mine life of 28 years at an average copper grade of 0.36% (oxide) and 0.33% (sulphide). Aktogay commenced production of copper cathode from oxide ore in December 2015 and copper in concentrate from sulphide ore in February 2017. The operating sulphide concentrator has an annual ore processing capacity of 25 million tonnes and the sulphide processing capacity will be doubled to 50 million tonnes with the addition of a second concentrator by the end of 2021. Aktogay is competitively positioned on the global cost curve and will produce an average of 90 kt of copper per year from sulphide ore until 2021, increasing to 170 kt per year from 2022 to 2027, after the second concentrator commences operations. Copper production from oxide ore will be in the region of 20 kt per annum until 2025.

In August 2018 the Group agreed to acquire the Baimskaya copper project in the Chukotka region of Russia, subject to regulatory approvals that remain outstanding. Development of the Peschanka deposit within the Baimskaya licence area is expected to deliver 250 kt of annual copper production and 400 koz of gold in the first ten years of operation, with a mine life of approximately 25 years.

KAZ Minerals is listed on the London Stock Exchange and the Kazakhstan Stock Exchange and employs around 13,000 people, principally in Kazakhstan. The Group delisted from its secondary listing on the Hong Kong Stock Exchange on 1 August 2018.

This announcement contains inside information.

## Delivering high growth in copper

The Transaction and subsequent delivery of the Baimskaya copper project will enable the Group to continue its high growth trajectory, adding a large scale, long life asset to the Group's portfolio. Demand for copper is forecast to grow from established sectors and from new sources of demand such as renewable energy generation and electric vehicles. The supply of copper is forecast to decline without the construction of new projects and enter a period of increasing deficit from 2020<sup>5</sup>.

Globally, large scale copper projects with attractive operating costs are increasingly scarce and many face a number of challenges including environmental, infrastructure, jurisdictional and labour or community relations risks. Capital expenditure on new copper projects has reduced significantly, from a high of around \$32 billion in 2012 to approximately \$12 billion in 2017<sup>6</sup>, helping to create the conditions for the forecast copper deficit.

Baimskaya represents a rare opportunity to deliver value accretive growth, utilising the proven large scale copper project development capabilities of KAZ Minerals in the CIS region.

### Baimskaya project overview

Baimskaya is located in the Chukotka region of Russia and is one of the world's largest undeveloped copper assets, with the potential to become a large scale, low cost, open pit copper mine. The Peschanka deposit within the Baimskaya licence area contains JORC resources of 9.5 Mt of copper at an average copper grade of 0.43% and 16.5 Moz of gold at an average grade of 0.23 g/t. The Project is expected to deliver average annual production over the first ten years after commissioning of 250 kt copper and 400 koz gold, or 330 kt of Copper Equivalent Production<sup>1</sup>, resulting in annual total Group copper production of approximately 500 kt over the ten-year period 2027-36.

The Project is expected to have an initial mine life of approximately 25 years with an annual ore processing capacity of 60 Mtpa from two concentrators. The life of mine strip ratio is 0.8 and the strong gold by-product combined with a low gross cash cost is forecast to deliver a highly competitive net cash cost, in the first quartile of the global cost curve. The Project will initially focus on the Peschanka deposit, with potential for further exploration within the licence area.

		Measured	Indicated	Inferred	Total
Mineral resources	Mt	139	1,289	774	2,202
Copper	%	0.72	0.44	0.36	0.43
	Mt	1.0	5.7	2.8	9.5
Gold	g/t	0.39	0.26	0.16	0.23
	Moz	1.7	10.8	4.0	16.5
Silver	g/t	4.0	2.4	2.0	2.4
Molybdenum	ppm	140	120	90	110

### Infrastructure and state support

The Group's decision to acquire the Baimskaya project coincides with significant planned infrastructure development by the Russian Government in the Far East region of Russia.

Power for the construction phase of the Project is currently being funded and installed by the Russian Government. Financing has been allocated to commence construction of a 220 kV line to connect with existing hydropower facilities close to Magadan, to provide power for the future operation of the mine. Copper concentrate will be shipped to customers from the port of Pevek which is located 700 km to the north of the Project. Access to the site will initially be via a winter road from the Project to Pevek. A permanent road that will connect the Project to Pevek is expected to be built by the Russian Government and air access close to the site will be established by the Group during the construction of the Project. The site benefits from access to fresh water.

The Project is expected to be designated as a Territory of Accelerated Social and Economic Development ("TASED") subject to the extension of the existing Beringovsky TASED, or the creation of a new TASED which would cover the area of the Baimskaya project. If this status is obtained, there would be no tax on profits payable for a period of five years from the year the first profit is recorded, and a reduced tax rate for the following five years.

The amount of the Deferred Equity Consideration payable is conditional, inter alia, on the confirmation of eligibility for TASED tax incentives, state construction of the transport and power links to the Project and the attainment of Commercial Production.

### Project budget

A pre-feasibility study has been completed by Fluor and reviewed by the KAZ Minerals project team as part of the due diligence process. KAZ Minerals intends to fund limited expenditure prior to Initial Completion to progress the optimal Project design. In the event that Initial Completion does not occur, including failure to obtain regulatory approvals, there is a mechanism to recover costs from the Vendor within agreed limits. The total capital expenditure budget for the Project is estimated at around \$5.5 billion, incurred over the period from 2018-26, and will be further reviewed during the feasibility study.

## Financing

The economics of the Project combined with KAZ Minerals' strong execution credentials are expected to be attractive to a range of finance providers. The Group has a successful track record of financing major copper developments. The financing requirements of the Project are expected to be manageable given that (i) the capital expenditure will be spread over an eight-year period from 2018-26; (ii) the existing asset base of the Group is highly cash generative; and (iii) there are options for adjusting the phasing of capital expenditure, if necessary. The Project is expected to attract interest from a range of sources, including Russian, Chinese and international lenders. The Group may explore opportunities for partnering in the Project during the feasibility study.

## Consideration structure

Initial Consideration of \$675 million, consisting of \$436 million in cash and 22,344,944 new KAZ Minerals shares, valued at \$239 million<sup>4</sup>, will be paid to the Vendor (or, in the case of the Initial Consideration Shares, its affiliates) at Initial Completion which is expected to occur in the first half of 2019, upon fulfilment of the conditions precedent to the Transaction. The timing of Initial Completion is dependent on the receipt of approval from anti-monopoly authorities and approval for investment by a foreign company into a strategic asset in Russia.

The Initial Equity Consideration comprises 22,344,944 new KAZ Minerals shares, subject to certain anti-dilution provisions and adjustments for certain dividends and other corporate actions, representing 5.0% of the current issued share capital of KAZ Minerals<sup>3</sup>, and will be subject to a three-year lock-in agreement from the date of Initial Completion and a Right of First Refusal for KAZ Minerals to repurchase those shares at market value (subject to obtaining the requisite shareholder approvals) thereafter.

The Deferred Consideration structure establishes a strong incentive for the Vendor to assist in delivery of the Project. Deferred Equity Consideration of up to \$225 million<sup>4</sup> is payable in KAZ Minerals shares at Final Completion if and to the extent that the Project Delivery Conditions are satisfied at the date of Commercial Production. Up to 21,009,973 KAZ Minerals shares, representing 4.7% of the current issued share capital<sup>3</sup>, may be issued to the Vendor or its affiliates to satisfy the Deferred Equity Consideration, subject to certain anti-dilution provisions and adjustments for certain dividends and other corporate actions. The Project Delivery Conditions relate to state construction of transport and power infrastructure, confirmation of federal tax incentives and demonstration of year-round concentrate shipment from the port of Pevek on agreed terms. If and to the extent that the Project Delivery Conditions are not satisfied at the date of Commercial Production or if Commercial Production is not achieved by the Long Stop Date, Deferred Cash Consideration of up to \$225 million will be paid to the Vendor on the Long Stop Date in lieu (in whole or in part) of Deferred Equity Consideration.

## Transaction classification

The Transaction is a class 2 transaction under the Listing Rules of the UK Listing Authority. The legal owner of the Baimskaya licence is LLC GDK Baimskaya, a 100% owned subsidiary of the Vendor, Aristus Holdings Limited. The ultimate beneficial owners of the Vendor are a consortium of individuals, including Roman Abramovich and Alexander Abramov.

The book value of the gross assets which are the subject of the Transaction is \$136 million as at 31 December 2017, the latest available consolidated balance sheet for LLC GDK Baimskaya. In the year to 31 December 2017, LLC GDK Baimskaya made a loss before tax of \$4 million.

## KAZ Minerals' development capability

KAZ Minerals has a proven capability to deliver large scale, low cost, open pit copper mining projects in the CIS region, having successfully developed two such projects in parallel from 2011 to 2017. The Baimskaya project will be managed by the KAZ Minerals projects division, drawing on experience gained from previous projects in Kazakhstan.

As a proven operator in Kazakhstan, KAZ Minerals expects to have a number of advantages when operating in Russia including a common language and business culture, close political links between Russia and Kazakhstan, the benefits associated with operating within the Eurasian Economic Union and experience in cold climate and remote locations.

## Next steps

The Group will present details of the Transaction to analysts at 11:00am UK time on 2 August 2018.

Further updates on progress towards Initial Completion and on the Project development will be provided as appropriate.

## Defined terms

Commercial Production	the first commissioned concentrator at the Project achieving 70 per cent. of nameplate processing capacity for six consecutive calendar months
Consideration Shares	the Initial Equity Consideration to be issued to the Vendor or its affiliates at Initial Completion, and any Deferred Equity Consideration to be issued to the Vendor or its affiliates at Final Completion
Copper Equivalent Production	total copper equivalent production units consisting of copper production, plus gold production converted into copper units assuming analyst consensus long term average price forecasts of \$6,700 /t for copper and \$1,300 /oz for gold.
Deferred Cash Consideration	\$225 million in cash payable to the Vendor at the Long Stop Date, in lieu (in whole or in part) of payment of Deferred Equity Consideration at Final Completion, if and to the extent that the Project Delivery Conditions are not satisfied at the date of Commercial Production
Deferred Equity Consideration	up to 21,009,973 million KAZ Minerals shares, representing up to 4.7% of issued share capital <sup>3</sup> , subject to certain anti-dilution provisions and adjustments for certain dividends and other corporate actions, to be issued to the Vendor or its nominee at Final Completion, if and to the extent that the Project Delivery Conditions are satisfied at the date of Commercial Production
Deferred Consideration	any Deferred Equity Consideration payable at Final Completion and any Deferred Cash Consideration payable at the Long Stop Date, with a total value of \$225 million
Final Completion	completion of the acquisition by KAZ Minerals of the remaining 25% interest in the Project, which will be at the earlier of (i) a date shortly after the date of Commercial Production and (ii) the Long Stop Date
Fluor	Fluor Corporation
Initial Cash Consideration	\$436 million in cash
Initial Completion	completion of the acquisition by KAZ Minerals of a 75% interest in the Project, expected to be in the first half of 2019, after obtaining anti-monopoly and other regulatory approvals and satisfaction of certain other conditions
Initial Consideration	the Initial Cash Consideration and the Initial Equity Consideration payable at Initial Completion, with a total value of \$675 million
Initial Equity Consideration	22,344,944 million new KAZ Minerals shares, representing 5% of the current issued share capital <sup>3</sup> , subject to certain anti-dilution provisions and adjustments for certain dividends and other corporate actions, valued at \$239 million <sup>4</sup>
KAZ Minerals or the Group	KAZ Minerals PLC, together with its subsidiary undertakings
Long Stop Date	31 March 2029
Project	the Baimskaya copper project in the Chukotka region of Russia
Project Delivery Conditions	conditions to the payment of Deferred Equity Consideration at Final Completion in lieu of payment of Deferred Cash Consideration at the Long Stop Date, which relate to state construction of transport and power infrastructure, confirmation of federal tax incentives and demonstration of year-round concentrate shipment from the port of Pevek on agreed terms
Right of First Refusal	the right of KAZ Minerals to repurchase the Consideration Shares at market value, subject to obtaining shareholder approval required under the UK Companies Act
TASED	a territory of accelerated social and economic development

Transaction	the acquisition by the Group of the Project
Vendor	Aristus Holdings Limited, a company owned and controlled by a consortium of individual investors including Roman Abramovich and Alexander Abramov

## Glossary

g/t	grammes per metric tonne
IRR	internal rate of return
JORC	Joint Ore Reserves Committee
koz	thousand troy ounces
Kt	thousand metric tonnes
Mt	million metric tonnes
Mtpa	million tonnes per annum
ppm	parts per million

## Notes

<sup>1</sup> Based on 100% share of production

<sup>2</sup> In nominal terms based on 100% share of development capital expenditure, subject to confirmation in feasibility study

<sup>3</sup> Excluding shares held in treasury

<sup>4</sup> Value of shares calculated using 30 day volume weighted average price of KAZ Minerals shares at 31 July 2018

<sup>5</sup> Source: Wood Mackenzie

<sup>6</sup> Source: Citi research