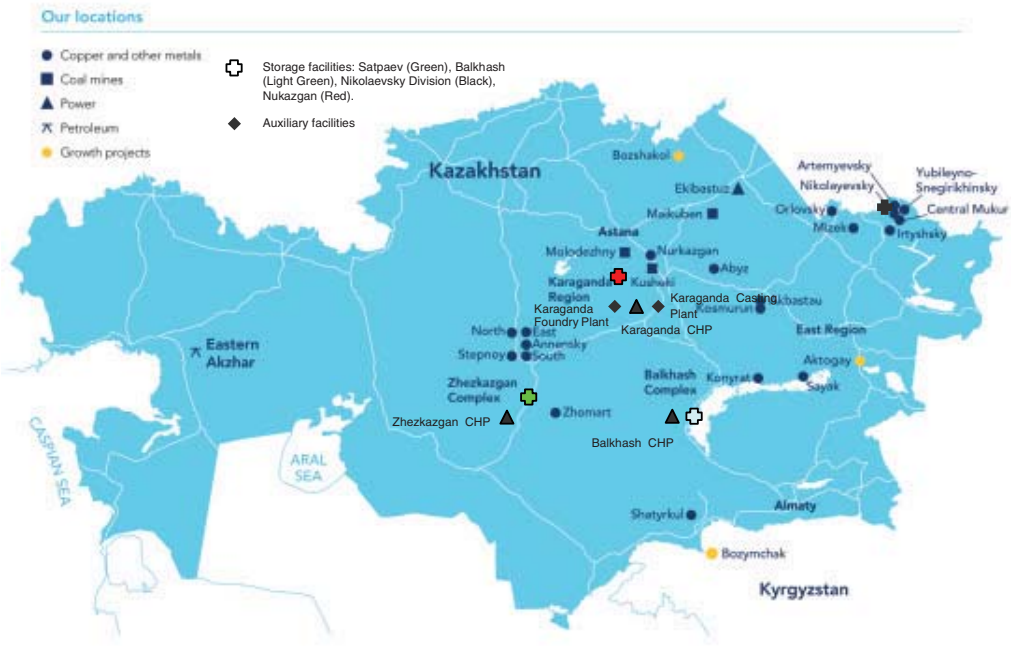
## OVERVIEW

The Group is a large natural resources group whose primary assets are located in Kazakhstan. The Group is a fully integrated copper producer engaged in the mining, processing, smelting, refining and sale of copper and copper products, including copper cathode and copper rod. The Group is the largest copper miner in Kazakhstan, which is the second largest copper producing country within the CIS region (following Russia), and the 11th largest world-wide, according to GFMS. In 2010, the Group produced 303 kt of copper cathode from its own ore. The Group is the 11th largest global producer of silver according to The Silver Institute. Additionally, the Group is the largest electrical power supplier in Kazakhstan. According to the IMC Report, as at 1 January 2011, the Group's copper division, Kazakhmys Copper, had 717,816 kt of ore reserves, containing 0.83 per cent. copper, 0.30 per cent. zinc, 8.93 g/t silver and 0.15 g/t gold and the Group's gold division, Kazakhmys Gold, had a further 16,349 kt of ore reserves containing 0.80 per cent. copper, 7.96 g/t silver and 1.38 g/t gold. The Group's primary holding company, Kazakhmys, has been listed on the premium segment of the London Stock Exchange and included in the U.K. FTSE 100 Index since October 2005.

The Group is structured around its main business activities, mining, power generation and petroleum exploration, and is organised into five business divisions: Kazakhmys Copper, Kazakhmys Power, Kazakhmys Gold, Kazakhmys Petroleum and MKM. The business is supported by central functions in London and Almaty, which are responsible for the Group's strategy, cash and capital management, development and other core Group functions. The Group also owns a 26 per cent. stake in ENRC, a company listed on the Premium Segment of the LSE. The market capitalisation of the Group's stake in ENRC was US$4,174 million as at the Latest Practicable Date.

The following map shows the location of the Group's main operations:



### Kazakhmys Copper

Kazakhmys Copper is the largest producer of copper in Kazakhstan. It is also one of the lower-cost producers of copper worldwide, according to GFMS. Its operations are vertically integrated: it processes substantially all of the ore it mines, smelts and refines almost all the copper concentrate it produces and through its captive power plants generates sufficient electricity to meet its own requirements. Kazakhmys Copper operates 17 mines, of which two are open pit, 10 concentrators and two copper smelting and refining complexes in various parts of Kazakhstan. Kazakhmys Copper also processes or refines and sells zinc, gold and silver as by-products from its copper operations. As part of its operations, Kazakhmys Copper also owns three coal-fired power and heating plants at Karaganda, Balkhash and Zhezkazgan, with a total capacity of 900 MW, and which currently generate more electricity than the Group consumes. The power and heating plants are supplied with fuel from Kazakhmys Copper's two coal mines. In addition, the Group also owns significant rail infrastructure in Kazakhstan, including around 1,100 km of track, 100 locomotives and 800 wagons, which is managed on an outsourced basis to transport ore, concentrate, cathodes, rods and wire. Kazakhmys Copper also has various growth and expansion projects including its major projects at Bozshakol and Aktogay.

### Kazakhmys Power

The Group jointly owns the Ekibastuz power station in Kazakhstan, which, with a current available capacity of 2,500 MW, is the largest in Kazakhstan. Since February 2010, the station has been owned through a joint venture with Samruk-Kazyna. The station is currently undergoing a US$1.0 billion expansion programme to restore the station's nameplate capacity of 4,000 MW, the cost of which will be shared equally by Kazakhmys and Samruk-Kazyna. All of the power generated at Ekibastuz is currently sold to third parties.

### Kazakhmys Gold

Kazakhmys Gold (formerly Eurasia Gold Inc.) is developing a gold-copper deposit, Bozymchak, in Kyrgyzstan and has one mature mine in Kazakhstan.

### Kazakhmys Petroleum

Kazakhmys Petroleum is a Kazakhstan-based company, which, having signed a contract with the Government in May 2007, holds rights for oil and gas exploration at the Eastern Akzhar exploration block in western Kazakhstan, an oil-rich region in the Caspian depression. Kazakhmys Petroleum is currently engaged in an ongoing deep well drilling programme and has completed drilling five deep wells. Work continues to determine the sites of future wells and the viability of the oil field.

### MKM

In addition to its four main business divisions, the Group owns MKM, a downstream copper products fabrication company in Germany that produces and sells copper and copper

alloy semi-finished products for various applications and industries. The Group made the determination to classify MKM as held for sale as at 31 December 2009, and MKM was treated as a discontinued operation in 2009 and 2010.

### ENRC

The Group also owns 26 per cent. of the issued share capital of ENRC, which represents 37.2 per cent. of the Company's market capitalisation as at the Latest Practicable Date. ENRC is a large, diversified mining and natural resources group with significant assets in Kazakhstan and additional business operations in Brazil, Russia, Africa and China. ENRC listed on the London Stock Exchange in December 2007 and had a market capitalisation of US$16,054 million as at the Latest Practicable Date.

### Kazakhmys Operational and Financial Performance

The Group's revenues from continuing operations increased 34.7 per cent. from US$2,404 million in 2009 to US$3,237 million in 2010. The Group's profits (before finance items and taxation) in 2010 were US$1,658 million compared with US$772 million in 2009.

The table below provides a summary of Kazakhmys Copper's total reserves and resources of ore, copper, zinc, gold, silver and coal as at 1 January 2011.(1)

| Reserves | Ore (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t(2) | Coal Mt |
|---|---|---|---|---|---|---|
| Proved | 447,610 | 0.90 | 0.40 | 0.20 | | 289.2 |
| Probable | 270,206 | 0.71 | 0.12 | 0.08 | | 99.9 |
| **Total** | **717,816** | **0.83** | **0.30** | **0.15** | **8.93** | **389.1** |

| Resources | Ore (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t(2) | Coal Mt |
|---|---|---|---|---|---|---|
| Measured | 1,994,737 | 0.64 | 0.12 | 0.09 | | — |
| Indicated | 3,203,723 | 0.46 | 0.06 | 0.07 | | — |
| **Total** | **5,198,460** | **0.53** | **0.09** | **0.08** | **3.87** | **—** |

*Source:* IMC Report, Company

(1) Kazakhmys Copper ore, copper, zinc, gold and silver reserves and resources comprise reserves and resources for the Zhezkazgan Complex, the Balkhash Complex, the East Region and the Karaganda region, as well as project mines including Aktogay, Aiderly and Bozshakol. Kazakhmys Copper coal reserves and resources comprise reserves and resources for Molodezhny and Kuu-Chekinsky.

(2) Not all silver grades can be attributed to resource or reserve categories but are included in the totals.

The table below provides a summary of Kazakhmys Gold's total reserves and resources of ore, copper, gold and silver as at 1 January 2011.(1)

| Reserves | Ore (kt) | Copper (percent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|
| Proved | 6,639 | 0.84 | 1.43 | 8.54 |
| Probable | 9,710 | 0.76 | 1.34 | 7.57 |
| **Total** | **16,349** | **0.80** | **1.38** | **7.96** |

| Resources | Ore (kt) | Copper (percent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|
| Measured | 11,271 | 0.85 | 2.01 | 8.00 |
| Indicated | 18,921 | 0.73 | 1.70 | 6.56 |
| **Total** | **30,192** | **0.78** | **1.81** | **7.10** |

*Source:* IMC Report

(1) Kazakhmys Gold ore, copper, gold and silver reserves and resources comprise reserves and resources for the Mizek, Mukur and Zhaima mines as well as the Bozymchak project mine.

No material changes have occurred in the Group's reserves and resources since the effective date of the IMC Report. See "Appendix III—Competent Person's Report."

The table below provides information relating to the Group's historical copper, zinc, gold, silver and power production.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Copper cathode equivalent from own concentrate (kt)(1) | 343 | 320 | 303 |
| Zinc in concentrate (kt) | 137 | 149 | 167 |
| Gold (koz) | 124 | 135 | 127 |
| Gold doré (koz) | 56 | 47 | 43 |
| Silver (koz) | 16,710 | 16,894 | 14,093 |
| Kazakhmys Power net electricity generation (Gwh)(2) | 5,774 | 9,737 | 6,528 |

(1) Includes copper sold as concentrate and cathode converted to rods.

(2) Electricity generation net of internal Kazakhmys Power consumption. 2008 figure represents the period from acquisition on 29 May 2008. 2010 figure represents the net generation until the 50 per cent. disposal on 26 February 2010 and the net generation attributable to Kazakhmys under the joint venture from 26 February 2010.

## KEY STRENGTHS

The Directors believe that the key strengths of the Group's business are:

- **its long-life, high-quality copper reserve**

Kazakhmys is the largest copper miner in Kazakhstan, which is the second largest copper producing country within the CIS region (following Russia), and the 11th world-wide, according to GFMS. Kazakhmys has a long-life asset base consisting of proved and probable reserves of 6.1 Mt of contained copper (734 Mt at an average grade of 0.83 per cent. copper) and measured and indicated resources of 27.7 Mt of contained copper (5,229 Mt at an average grade of 0.53 per cent. copper) as reported in the IMC Report.

The Group's assets possess attractive geological characteristics and allow for large-scale, cost-effective mineral extraction. A significant proportion of the Group's mineral deposits are polymetallic in nature, allowing for production and sale of by-products including gold, silver and zinc, which serve to offset the Group's cash costs.

This combination of a long-life and high-quality copper reserve base allows Kazakhmys to assure its customers of a long-term, stable supply of consistent quality of copper products. Kazakhmys believes this is an important competitive advantage in an industry where reliability is one of the primary concerns of customers.

- **its enhanced margins due to a high degree of vertical integration and low operating costs**

The Group believes that a high degree of vertical integration reduces the Group's exposure to third party risk and allows the Group to capture margin across the value chain within the Group, which, combined with the economies of scale that result from the size of the Group's operations, helps Kazakhmys to reduce and manage its cost base. Substantially all of the ore produced by the Group is converted to and sold as finished metal using the Group's smelting and refining facilities. The Group also generates and supplies all of its own power as well as owning substantial rail and loading infrastructure, workshops and ancillary services, which provides security of power supply as well as allowing Kazakhmys to control the timely production, transportation and delivery of its materials to its customers.

In 2010 the Group's average gross cash cost per pound of copper cathode was US$2.03. Against this the Group generated revenue of US$1.14 per pound of copper cathode from the sale of by-products yielding an average net cash cost of only 89 cents per pound of copper cathode, which equates to a performance in the second quartile of the industry cash cost curve according to GFMS.

These factors have helped the Group to deliver a strong financial track record. In 2009, Kazakhmys was able to deliver a 6.9 percentage point improvement in net profit margin for continuing operations year on year, despite the impact of the economic downturn in 2009, which led to a 26.6 per cent. fall in revenue from continuing operations over the same period.

- **its strategic location between China, the world's largest and fastest growing copper market, and Europe and its long-term customer relationships**

Kazakhmys' two largest end user markets are Europe and China, which represent approximately 16 per cent. and 38 per cent. of global demand for copper, respectively; and in 2010 China accounted for approximately 50 per cent. and Europe accounted for between 40 per cent. and 50 per cent. of the Group's sales. With its production assets based in Kazakhstan, the Group benefits from its central location and proximity to these markets.

To serve its customers and connect its facilities, Kazakhmys has developed its own rail links, with around 1,100 km of track and over 100 locomotives and 800 wagons. This network is linked into Kazakhstan's main trunk lines and allows Kazakhmys to connect to the Chinese and Russian rail networks. In 2010, Kazakhmys transported 112.5 kt of copper cathode to Novorossiysk (Black Sea) port, from where it was then shipped to the Group's European customers.

The Group is ideally located to serve the growing demand for copper in China. China has been the market with the strongest growth (by tonnage) over the last decade, according to GFMS. Going forward, GFMS forecasts that Chinese demand for copper will grow at a compound annual growth rate of 5.5 per cent. over the next six years. In particular, the

Group's access to the rail network through China's north western border with Kazakhstan allows it to serve the Xinjiang province, which is considered to be remote within inland China as it does not have efficient transport access links to China's eastern seaports. In 2010, Kazakhmys transported 133 kt of copper cathode and 29 kt of copper rod to Alashankou on Kazakhstan's eastern border with China, from where it was then transported to end users in China.

By taking advantage of the Group's strategic location and consistent production levels, Kazakhmys has developed a stable customer base and long-term customer relationships in both the European region and China. In particular, the Group has been selling copper cathode into the Chinese market for over 10 years.

In aggregate, the Group typically sells up to 90 per cent. of its anticipated production in the year prior to the year in which delivery is agreed. In 2010, approximately 90 per cent. of the Group's production for 2011 was sold under these off take agreements. These agreements are generally with copper users, rather than traders, and the majority have been customers of the Group for more than five years, with some of the Group's relationships spanning up to 15 years. As at 5 January 2011, 260 kt of copper cathode has been contracted for delivery in 2011 and all contracts for supply in 2011 were completed and signed.

- **its large scale, attractive growth projects**

The Group expects to maintain copper production from its existing mines at approximately 300 kt through its expansion and mid-sized projects, while delivering a 200 kt increase in copper production, which is expected to commence within the next five years through the development of its two significant growth projects, Bozshakol and Aktogay.

In order to maintain production levels at its existing assets, the Group is currently in the process of adding underground extensions to its open-pit mine operations at Kosmurun and Akbastau, extending the underground operations at its Zhomart mine, designing a second-stage extension at Shatyrkul and constructing a new concentrator at its Akbastau mine. The new concentrator at Akbastau will serve both the Akbastau mine and the Kosmurun mine. These projects are fully funded and are progressing on schedule.

Bozshakol and Aktogay, in aggregate, will increase the Group's resources (measured and indicated) by approximately 2,515 Mt, according to the IMC Report. The Group has made significant progress on Bozshakol, a copper sulphide ore deposit with resources (measured and indicated) of approximately 796 Mt according to the IMC Report. The draft feasibility study was completed in November 2010 and, following further testing of the gold resource, first ore is scheduled to be produced by the end of 2015. Financing of US$2.0 billion has been secured from the China Development Bank, through Samruk-Kazyna, for this project. Kazakhmys is currently considering options for the successful development of the Aktogay project and has entered into a non-binding memorandum of understanding with CDB for the provision of a US$1.5 billion loan facility to develop the project. Aktogay, a large open-pit mine and concentrator project is expected to yield around 100 kt of copper in concentrate each year.

Both projects are well positioned to benefit from Kazakhmys' previous experience in developing major mining operations in Kazakhstan, existing infrastructure, surplus in-house

smelting capacity and power capacity at Ekibastuz GRES-1. Bozshakol is located within 90 km of existing power transmission lines and just 17 km from a Kazakhmys railway depot while Aktogay is already connected to the Group's rail links and has a 220 kV power transmission line.

The Directors believe this strong growth pipeline provides an important advantage in an industry that is supply constrained due to the complexity of new projects, long delivery times and the declining grades of new deposits.

- **its proven and experienced management team who are committed to high standards of corporate governance and shareholder value creation**

Kazakhmys has a highly skilled, experienced and stable management team that has proven industry expertise. Since 2005 the team has overseen steady output whilst cash costs remained in the second quartile on the cash cost curve. In addition, the management team has overseen a number of acquisitions and expansion projects. Over the same period, management has improved the Group's access to capital through a listing on the LSE in 2005 and the listing on the KASE in 2006. In addition, strategic shareholdings in ENRC and Ekibastuz GRES-1 have been acquired.

Built around the Chairman, Vladimir Kim, who joined the Group in 1995, the management team consists of managers with extensive experience working in mining, exploration and marketing and a deep understanding of the Group's key markets. Oleg Novachuk, Chief Executive, joined Kazakhmys in 2001 and was appointed Chief Executive in March 2007, following two years as Chief Financial Officer. Matthew Hird, Chief Financial Officer since March 2007, joined the Group in 2005 as Chief Financial Controller having previously worked in Deloitte & Touche's global mining team and as Company Secretary at Vedanta Resources plc. Sergei Diachenko, Chief Operating Officer, joined the Group in 2010 having previously worked for Rio Tinto, Palabora Mining Company Limited and De Beers Group Services (Pty) Limited. Of the Group's Board members and senior managers, six individuals (namely, Vladimir Kim, Oleg Novachuk, Philip Aiken, Sergei Diachenko, Eduard Ogay and Clinton Dines) have prior management experience in the mineral resources industry, acting or having acted as directors or managers for some of the most reputable companies in the industry. For example, Clinton Dines, a non-executive director, retired in 2009 as president, BHP Billiton China and Philip Aiken, the senior independent non-executive director, was formerly president, UK of BHP Billiton plc having previously been group president of BHP Billiton's energy business and president, BHP Billiton Petroleum.

As a major international natural resources company listed on the LSE, Kazakhmys is committed to high standards of corporate governance and has established an experienced Board with a strong independent element to ensure the correct management of its affairs and to recognise and protect the interests of all shareholders and stakeholders. Currently Kazakhmys' Board consists of three Executive and five Non-Executive Directors, four of whom (namely Lord Renwick, Philip Aiken, Simon Heale, and Clinton Dines) are independent. The Group's Independent Directors have significant and valuable experience acting as non-executives on the boards of other international companies. Lord Renwick is a Non-Executive Director of Compagnie Financiére Richemont SA and Vallar plc; Philip Aiken is a Non-Executive Director of National Grid plc and Essar Energy plc; Simon Heale is a

Non-Executive Director of The Morgan Crucible Company PLC, Panmure Gordon & Co. PLC, Marex Group Limited and PZ Cussons plc; and Clinton Dines is chairman Asia of Caledonia (Private) Investments Pty Limited and a non-executive director of Zanaga Iron Ore Company. The Independent Directors play a leading role in the functioning of the main Board committees and provide expertise and independent judgement from a variety of business sectors and public life.

- **its strategic investments in Ekibastuz and ENRC, which provide exposure to the attractive Central Asian commercial power market and diversify the Group's earnings stream**

Over the last three years, the Group has made two significant investments, which are Ekibastuz GRES-1 and ENRC. To diversify and gain exposure to the strategically important and growing Central Asian commercial power market and to provide power for its future growth projects, the Group has established a 50 per cent. interest in Ekibastuz GRES-1. In addition, to provide exposure to other metals and commodities (ferrochrome, iron ore and aluminium) and diversify its earnings stream, the Group has established a 26 per cent. shareholding in ENRC, a U.K. FTSE 100 LSE listed group. An initial 14.6 per cent. was purchased in October 2007 prior to ENRC listing, and 7.6 per cent. of the holding was obtained following a share swap with the Government, with the balance of the holding being purchased between July and October 2008. The aggregated cost of the holding was US$3,834 million. Management continually evaluates these investments in order to optimise value for Kazakhmys' shareholders.

*Ekibastuz GRES-1 LLP*

With the tight reserve margins of the power sector, the Group believes the commercial power market in Kazakhstan is economically attractive to suppliers. Since the acquisition of Ekibastuz GRES-1 in May 2008, net power generation has increased by 14 per cent. from 2009 to 2010, which is driven by an increase in capacity. In a growing market, Ekibastuz has increased its market share from c.13 per cent. in 2009 to c.14 per cent. in 2010 according to management estimates and has benefited from rising tariffs. In April 2009, to encourage investment in power generation the Government introduced a ceiling price framework with the aim to raise prices for domestic electricity sales for the years 2009 to 2015. See "Industry Overview—Kazakhstan Power Sector Overview".

The combination of these three favourable industry dynamics, market share, growing demand and rising tariffs have helped deliver a significant increase in Ekibastuz' EBITDA margin from 50 per cent. in 2009 to 60 per cent. in 2010.

In addition to allowing the Group to diversify into the commercial power market, this investment secures the provision of power necessary for the Group's major growth projects at Bozshakol and Aktogay.

*ENRC*

Kazakhmys enjoys diversification benefits from exposure to ENRC's range of commodities, principally ferrochrome, iron ore, alumina and aluminium, and its geographic diversity through ENRC's assets in central and southern Africa, South America and Russia,

which may reduce the volatility of the Group's cash flows and provide additional earnings growth. As at 31 December 2010, the market capitalisation of the Group's ENRC shareholding was US$5,431 million, compared to the cost of investment of US$3,834 million, and it contributed 31.8 per cent. of the Group's EBITDA (excluding special items).

## GROUP STRATEGY

The Group's objective is to become the leading natural resources company focused in Central Asia, combining international best practices with exceptional mineral opportunities. The Group intends to achieve this objective by pursuing the following strategies:

### Optimising existing assets to improve efficiency, including raising productivity, increasing yields and maintaining low costs

The Group has a strong track record in delivering low cost production and maintaining its position in the lower half of the global cost curve. The Group's average net cash cost was 89 cents per pound in 2010, compared with an industry average, according to GFMS, of 112 cents per pound in the same period.

The Group believes that it is well positioned to maintain its competitive low-cost advantage and attractive operating margins through the implementation of a broad range of initiatives aimed at reducing inefficiencies and optimising operational and financial performance. With its highly integrated platform, the Group believes it is able to further enhance productivity and capture value.

The initiatives being introduced include centralising procurement and supplier relationships to optimise purchasing and equipment management; introducing new maintenance programmes to raise equipment availability and utilisation; developing mine planning techniques; and improving material handling and flow to reduce costs and raise recovery rates.

### Delivering growth through expansion projects at existing assets and the development of its major new projects, Aktogay and Bozshakol

The Group believes that it has a range of expansion projects that provide a reduced risk opportunity to increase production at a competitive cost. The Directors have identified a number of opportunities for mid sized expansion at new and existing assets, including Bozymchak, a gold copper-project in development stage, and Akbastau, Kosmurun and Zhomart, all copper projects undergoing technical studies. Akbastau is a new concentrator construction and deposit development. Kosmurun and Akbastau are underground extension projects, while Zhomart is an extension of existing underground operations. In addition to these projects, in the near term the Group is planning another expansion at Shatyrkul and a new mine at Zhaisan. The Group has a dedicated exploration team and seeks to expand the future projects pipeline through drilling and exploration.

The Group is also investing approximately US$3 to US$4 billion in the development of its two new major growth projects, Aktogay and Bozshakol. These mines have the advantage of being close to existing power and rail infrastructure and are close to end markets,

particularly China. The Group has significant surplus in-house smelting capacity, thus providing the Group with options for product sales.

Bozshakol has a management estimated 1,184 Mt of ore to be extracted over the life of mine at a copper grade of 0.35 per cent., along with other by-products including gold, silver, molybdenum and rhenium. Management estimates that the Bozshakol project will process 27 Mt of ore annually. The revised feasibility study for the project is being undertaken by Aker Solutions and should be completed by the end of 2011. Aktogay is a large open pit mine and concentrator project which is located in the east of Kazakhstan. Aktogay is a copper ore deposit with a management estimated 119 Mt of oxide ore to be extracted over the life of mine at a 0.37 per cent. copper grade and 1,148 Mt of sulphide ore to be extracted over the life of mine at a 0.38 per cent. copper grade, which supports a 43 year mine life. Overall, management estimates the deposit contains nearly 5 Mt of copper to be extracted over the life of mine along with some minor molybdenum and silver by-products. The Group is likely to proceed with the feasibility study for the main sulphide deposit in 2011 and also to update the feasibility study for the oxide deposit. Kazakhmys is currently evaluating options for the successful development of the Aktogay project and has entered into a non-binding memorandum of understanding with CDB for the provision of US$1.5 billion loan facility to develop the project with the expectation of concluding a loan agreement by the end of 2011.

**Leveraging its competitive position to take advantage of mineral and resource opportunities principally in Central Asia through exploration and acquisitions**

Kazakhmys is one of the largest employers in Kazakhstan with over 60,000 employees, its revenue represents approximately 2 per cent. of Kazakhstan's GDP and in many of its production centres it is the primary employer. As a result, the Group plays an important role in the economic development of Kazakhstan and enjoys a close relationship with local and national government and industry. The Directors believe these relationships have helped the Group develop a deep understanding of its local business and operating practices and allow Kazakhmys to operate more effectively in Kazakhstan. Kazakhmys' importance to the economic development of Kazakhstan is recognised by the Government, who increased their holding in Kazakhmys to 26 per cent. in October 2010 through the sovereign wealth fund Samruk-Kazyna's acquisition of an 11 per cent. interest. Moreover, the joint venture agreement between Samruk-Kazyna and Kazakhmys to operate and further develop Ekibastuz GRES-1 demonstrates a positive commitment by the Kazakh sovereign wealth fund to a strategically important company in Kazakhstan.

By applying its critical mass, strong cash flows and financial flexibility, the Group will continue to selectively pursue acquisitions of mineral, resource and power-generating assets, such as its stake in ENRC and its Ekibastuz GRES-1 joint venture. As the second largest mining and metals company in Kazakhstan, the Directors believe that the Group has significant experience of the political and economic operating environment in Kazakhstan and the Central Asia region and believe that the Group is well positioned to participate in the development of the significant and still largely untapped natural resources of Kazakhstan and the Central Asia region. According to the USGS Mineral Commodities 2011 Summaries, Kazakhstan's copper reserves account for nearly 2.9 per cent. of total reserves globally, its reserves of zinc account for nearly 6.4 per cent. of the total reserves globally and its significant natural resources of other minerals include bauxite, alumina, tungsten, chromium and bismuth as well as gold.

**Expanding and upgrading the operational performance of Ekibastuz**

Kazakhmys owns 50 per cent. of Ekibastuz GRES-1, the largest power station in Kazakhstan by capacity and output. Combined with the other three captive power plants that supply the copper operations, the Group is the largest generator of power in Kazakhstan.

Ekibastuz is in the process of undergoing a capital investment expansion programme of up to US$1.0 billion, which will restore the plant to its nameplate capacity of 4,000 MW from the current capacity of 2,500 MW.

The Group believes that ownership of Ekibastuz ensures security of power supply for future growth projects and provides access to an expanding power market.

**Value generation and strategic optionality from the ENRC shareholding**

Kazakhmys owns 26 per cent. stake in ENRC, the market capitalisation of which was US$4,174 million on the Latest Practicable Date, approximately 37.2 per cent. of the Company's market capitalisation. ENRC's ferrochrome division is one of the largest low cost ferrochrome producers on a global basis, and it also has a large iron ore division that sells iron ore and pellets as well as an aluminium division that trades alumina and produces aluminium.

The investment in ENRC diversifies the Group's earnings in respect of exposure to the market dynamics of other metals and commodities, specifically ferrochrome, iron ore, alumina and aluminium; and provides strategic options for the future. As it seeks to maximise shareholder value, management continuously evaluates the potential strategic options to monetise this investment through mergers and acquisitions, investments in growth projects and capital returns. Should the Group pursue a full or partial monetisation of the holding in ENRC, the Company would consider, amongst other things, potential acquisitions of international base metals assets.

**Improving its international visibility and broadening its access to international capital markets as a public company**

Kazakhmys intends to continue accessing the international debt and equity markets when appropriate. Debt financing has been secured from a pool of banks on the US$2.1 billion PXF facility and from China Development Bank on the US$2.7 billion loan facility, both of which are on competitive lending terms.

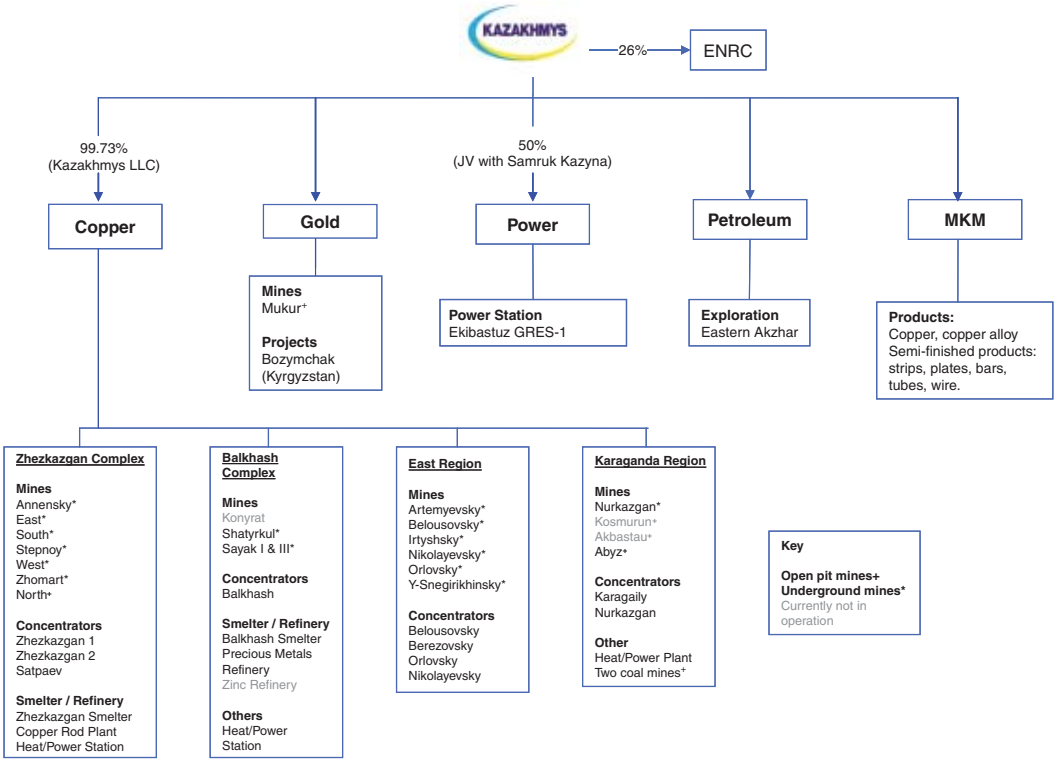
**Improving the health and safety of Kazakhmys employees and the maintenance of high environmental performance standards and community impact**

Kazakhmys is a substantial employer in Kazakhstan and plays a major role in the lives of its employees and the communities around its operations. The Board is committed to working on the continuous improvement of the working conditions and the behavioural culture of Kazakhmys employees to reduce the number of accidents and fatalities. This has included the building of two colleges for safety training, extensive investment in safety equipment and restructuring the management of health and safety at the operations. In addition, Kazakhmys intends to continue to invest to improve its environmental impact, including completing the

electrostatic precipitators at Ekibastuz, which will significantly reduce ash emissions. The Group has a substantial community investment programme, including the provision of health, education and infrastructure services. This is seen as an important part of the Group's relationship with the community.

## PRINCIPAL GROUP FACILITIES

The following chart shows the Group's main production facilities and operations by division:



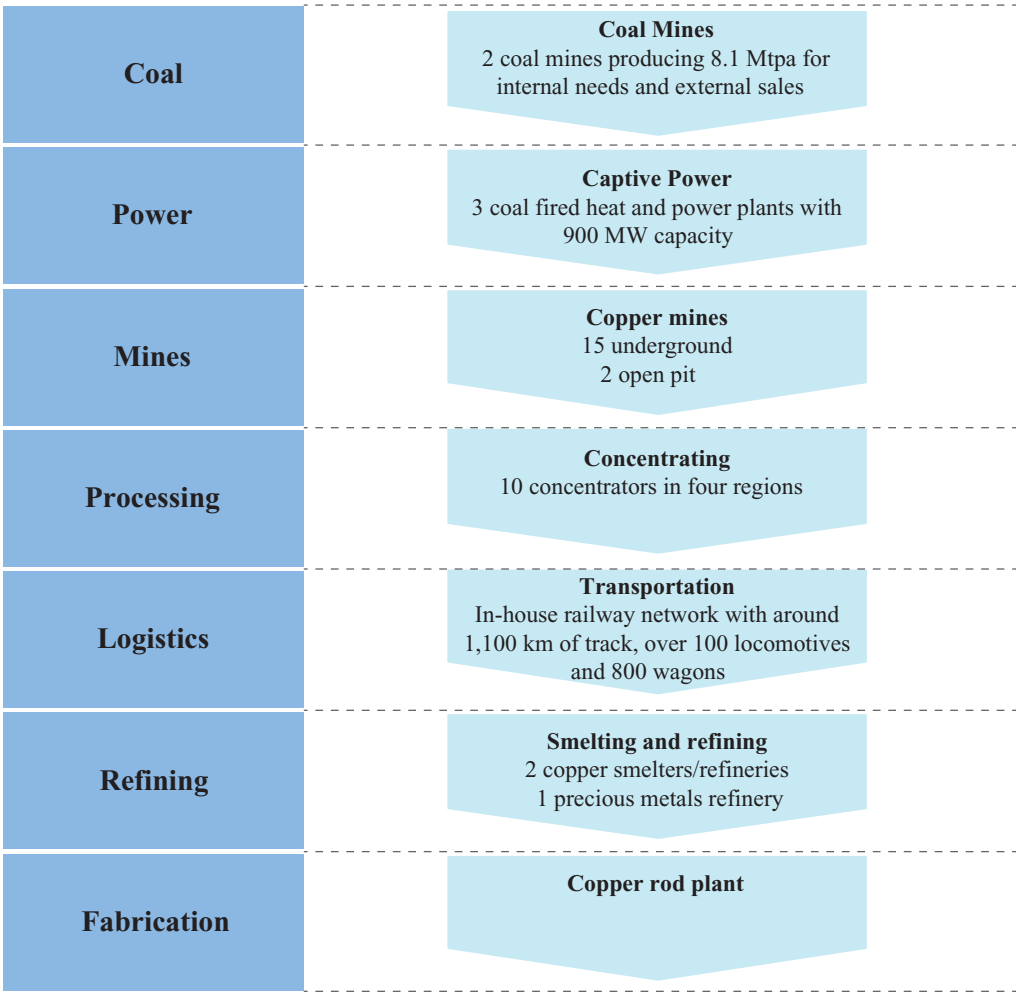

## KAZAKHMYS COPPER

### Introduction

Kazakhmys Copper is a vertically integrated copper producer. It mines all the copper ore it processes, produces substantially all the copper concentrate it smelts and refines and generates sufficient electricity to meet its own requirements. The Kazakhmys Copper division operates in four regional units: the Zhezkazgan Complex, the Balkhash Complex, the East Region and the Karaganda Region. The Zhezkazgan Complex is a fully integrated facility, including mining, ore processing, smelting and refining operations of copper and silver. The Balkhash Complex is a fully integrated facility comprising mines, concentrators, and copper and precious metals smelters. The East Region comprises mines and concentrators, which produce copper, zinc, gold and silver. The operations at the Karaganda Region, in addition to mines and concentrators producing copper, zinc, gold and silver, include two coal mines and a power station. Both the Zhezkazgan and Balkhash Complexes benefit from their own captive power stations. The Group uses a combination of its proprietary railway network and the national railway network for rail transportation in the production process.

## Production Process

Kazakhmys Copper operates along the following production process chain.




The Group's coal-fired captive power plants provide electricity for the Group's operations. Ore is extracted, typically by blasting, at the Group's 17 mines. Kazakhmys' ore is generally sulphidic, which is processed differently to oxide ore. After mining, the ore goes through several stages of crushing and grinding to a fine powder, which facilitates the separation of metal from unwanted rock and other waste materials. The ore is transported from the mines to the 10 concentrator facilities by rail (using a combination of the Group's own railway network and the national railway network) or truck. The ground ore is separated using direct selective floatation techniques to produce copper and zinc concentrate. This separation is achieved by mixing the ground ore with water and chemical reagents, which is aerated in flotation cells. The different chemical properties of the metal particles encourage them to escape the water by attaching to the air bubbles, which rise to the surface, where they form a froth. The froth is skimmed off, subjected to further treatment, and this concentrate is then thickened and stored, ready to be transported to the smelting and refining plants.

The copper concentrate is then transported to the Group's two smelters, where the material is heated and molten metal is separated from the waste slag and poured into

anodes. The anodes are then sent to the electro-refinery, where anodes are suspended in solution in the tankhouse to produce copper cathode, which is the Group's key product, by electrolysis. Some cathode is then processed into copper rod at the Group's copper rod plant. The residual slimes resulting from the refinery tanks can contain gold and silver and this is sent to the precious metals refinery for extraction.

The following table shows Kazakhmys Copper's copper production volumes by region for the years ended 31 December 2008, 2009 and 2010.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Copper Concentrate (kt) | | | Copper in Concentrate (per cent.) | | |
| Zhezkazgan Complex | 494 | 492 | 463 | 35.7 | 36.9 | 36.8 |
| Balkhash Complex | 267 | 207 | 240 | 14.5 | 18.2 | 17.3 |
| East Region | 584 | 595 | 465 | 19.0 | 18.2 | 18.4 |
| Karaganda Region | 253 | 273 | 305 | 15.2 | 8.3 | 9.1 |
| Own copper concentrate processed by third party | 25 | 33 | 37 | 26.9 | 25.7 | 26.1 |
| **Total Kazakhmys Copper (own concentrate)** | **1,623** | **1,600** | **1,510** | **22.8** | **22.4** | **22.2** |

*Source:* IMC Report

The following table shows Kazakhmys Copper's zinc and precious metals production volumes by region for the years ended 31 December 2008, 2009 and 2010.

| | Year ended 31 December | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Zinc Concentrate (kt) | | | Zinc in Concentrate (per cent.) | | | Silver (g/t) | | | Gold (g/t) | | |
| Zhezkazgan Complex | — | — | — | — | — | — | 581.9 | 657.4 | 557.2 | — | — | — |
| Balkhash Complex | — | — | — | — | — | — | 41.5 | 56.2 | 84.4 | 2.6 | 38.4 | 27.9 |
| East Region | 309 | 310 | 350 | 41.8[1] | 43.8[1] | 44.1[1] | 172.4[1] | 187.8[1] | 224.6[1] | 1.9[1] | 1.8[1] | 2.0[1] |
| Karaganda Region | 2 | 18 | 13 | 24.3 | 40.7 | 40.1 | 101.5 | 80.6 | 70.0 | 3.5 | 8.1 | 6.0 |
| **Total Kazakhmys Copper** | **311** | **328** | **363** | **44.2** | **45.6** | **46.1** | **299.3** | **331.0** | **321.5** | **2.0** | **3.9** | **3.7** |

(1) This figure represents production only from own concentrators within East Region and includes gold and silver content in gravity concentrate toll processed by KazZinc from Artemyevsky.

## Operating Businesses

Kazakhmys operates 15 underground and two open pit mines at the Zhezkazgan Complex, Balkhash Complex, East Region and Karaganda Region, as well as a further three mines that are currently suspended.

Kazakhmys Copper's copper reserves as at 1 January 2011 are set out below.

| Region | Reserves | (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|---|
| **Zhezkazgan Complex** | Proved | 222,374 | 0.69 | — | — | — |
| | Probable | 115,098 | 0.72 | — | — | — |
| | **Total** | **337,472** | **0.70** | **—** | **—** | **9.10** |
| **Balkhash Complex** | Proved | 65,286 | 0.48 | — | 0.15 | 1.19 |
| | Probable | 132,506 | 0.59 | — | 0.10 | 0.60 |
| | **Total** | **197,792** | **0.55** | **—** | **0.11** | **0.79** |
| **East Region** | Proved | 42,405 | 2.60 | 4.23 | 0.73 | 54.20 |
| | Probable | 14,039 | 1.59 | 2.39 | 0.29 | 37.25 |
| | **Total** | **56,444** | **2.35** | **3.77** | **0.62** | **49.99** |
| **Karaganda Region** | Proved | 117,545 | 0.94 | 0.16 | 0.40 | 2.80 |
| | Probable | 8,563 | 0.83 | 0.15 | 0.50 | 3.96 |
| | **Total** | **126,108** | **0.93** | **0.16** | **0.41** | **2.88** |

*Source:* IMC Report

Kazakhmys Copper's copper resources as at 1 January 2011 are set out below(1).

| Region | Resources | (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|---|
| **Zhezkazgan Complex** | Measured | 366,814 | 1.03 | — | — | — |
| | Indicated | 244,052 | 1.06 | — | — | — |
| | **Total** | **610,866** | **1.04** | **—** | **—** | **13.97** |
| **Balkhash Complex** | Measured | 1,327,573 | 0.40 | — | 0.05 | 1.38 |
| | Indicated | 2,144,627 | 0.39 | — | 0.03 | 1.40 |
| | **Total** | **3,472,200** | **0.39** | **—** | **0.04** | **1.39** |
| **East Region** | Measured | 42,423 | 2.82 | 4.91 | 0.84 | 63.15 |
| | Indicated | 41,175 | 1.85 | 4.64 | 0.60 | 71.55 |
| | **Total** | **83,598** | **2.34** | **4.78** | **0.72** | **67.29** |
| **Karaganda Region** | Measured | 257,927 | 0.95 | 0.14 | 0.32 | 3.35 |
| | Indicated | 773,869 | 0.40 | 0.01 | 0.15 | 0.33 |
| | **Total** | **1,031,796** | **0.54** | **0.04** | **0.19** | **1.08** |

*Source:* IMC Report
(1) Resources include the project mines in each region.

In addition to the copper reserves and resources, the mines in the Zhezkazgan area contain silver, those in the Balkhash area contain gold and silver and those in the East and Karaganda Regions contain substantial quantities of zinc in addition to small amounts of gold and silver.

The Group benefits from captive power capability and also manufactures in-house other materials used in its production processes, including chemical reagents used in the smelting and refining process and the reagents and consumables used in exploration and drilling. The Group also maintains an in-house construction team that has historically been utilised on various projects, including maintenance of Group-owned railways.

The Balkhash Complex is able to treat concentrate from third parties, with a limited quantity being processed at the Zhezkazgan Complex. This concentrate is either purchased or treated on a tolling basis. For the years ended 31 December 2008, 2009 and 2010, the Group's copper in concentrate production (excluding purchased concentrate) was 1,623 kt, 1,600 kt and 1,510 kt, respectively. The Group's purchases of copper concentrate were 105 kt in 2008, 8 kt in 2009 and 10 kt in 2010. The Group's total copper cathode production from own concentrate was 303 kt for 2010, excluding tolling, and 35 kt of copper rod from its own cathode at the Zhezkazgan Complex during 2010. In 2010, the Group produced 3 kt of copper cathode from third parties' material.

For 2010, the total zinc in concentrate production was 167 kt, which was all sold to third parties. Total refined silver production for 2010 was 14 Moz and the total gold production was 127 koz, excluding tolling.

### Zhezkazgan Complex

#### *Reserves and resources*

Kazakhmys Copper's metal reserves and resources as at 1 January 2011 at the Zhezkazgan Complex are set out below.(1)

| Reserves | (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Proved | 222,374 | 0.69 | — | — | — |
| Probable | 115,098 | 0.72 | — | — | — |
| **Total** | **337,472** | **0.70** | **—** | **—** | **9.10** |

| Resources | (kt) | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Measured | 366,814 | 1.03 | — | — | — |
| Indicated | 244,052 | 1.06 | — | — | — |
| **Total** | **610,866** | **1.04** | **—** | **—** | **13.97** |

*Source:* IMC Report

(1) Resources for the Zhezkazgan Complex include the project mines at North mine.

*Copper production*

Kazakhmys Copper's copper production levels at the Zhezkazgan Complex, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| **(kt, except as noted)** | **2008** | **2009** | **2010** |
| Ore mined | 24,124 | 23,779 | 23,309 |
| Average ore grade (per cent.) | 0.84 | 0.87 | 0.82 |
| Copper concentrate | 494 | 492 | 463 |
| Copper in concentrate (per cent.) | 35.7 | 36.9 | 36.8 |
| Copper cathodes | 181 | 105 | 117 |
| —of which, copper rod | 48 | 10 | 35 |

*Source:* IMC Report

*Zinc and precious metals production*

Kazakhmys Copper's precious metals production levels at the Zhezkazgan Complex, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| Average zinc ore grade (per cent.) | — | — | — |
| Zinc in concentrate (kt) | — | — | — |
| Average silver ore grade (g/t) | 13.63 | 15.49 | 12.45 |
| Silver (g/t)[1] | 581.9 | 657.4 | 557.2 |
| Average gold ore grade (g/t) | — | — | — |
| Gold (g/t)[1] | — | — | — |

*Source:* IMC Report, Company

(1) Reported in grammes per tonne of copper concentrate.

***Operations***

The Zhezkazgan Complex is an integrated copper cathode production facility incorporating mining, mineral processing, smelting and refining operations. The concentrate processed at the Zhezkazgan Complex comes from the mines in the vicinity of Zhezkazgan. The principal products produced at the Zhezkazgan Complex are copper cathode and copper rod.

The Zhezkazgan Complex includes the following principal operations:

- open pit ore mining operations (collectively called the North mine);
- underground ore mining operations (the South, Stepnoy, East, West, Annensky and Zhomart mines);
- mineral processing facilities (the Zhezkazgan No. 1 and No. 2 and Satpaev concentrators, which produce copper concentrate from the mined ore);
- a smelting/refining operation that produces copper cathode and silver in slimes that is sent to Balkhash for recovery;

- the Zhezkazgan captive power station; and
- a continuous-casting copper rod plant.

The Complex's energy requirements are provided by the Group's power plants located in Zhezkazgan and Karaganda.

### *Mines*

The following table shows general information on the mines that belong to the Zhezkazgan Complex. Some of the Zhezkazgan mines are composed of multiple pits or shafts.

| Mine | Type | Estimated life of mine |
|---|---|---|
| | | *(years)* |
| Annensky | Underground | 11.9 |
| East | Underground | 13.2 |
| South | Underground | 14.2 |
| Stepnoy | Underground | 18.4 |
| West | Underground | 9.9 |
| Zhomart | Underground | 11.9 |
| North[1] | Open pit | — |

*Source:* IMC Report
(1) The open pit mines at the Zhezkazgan Complex are collectively referred to as the North mine.

The ore output from the operational mines in the Zhezkazgan Complex for the years ended 31 December 2008, 2009 and 2010, respectively, is set out below.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | kt | Copper (per cent.) | kt | Copper (per cent.) | kt | Copper (per cent.) |
| Annensky | 3,407 | 0.87 | 3,295 | 0.74 | 3,127 | 0.67 |
| East | 5,188 | 0.78 | 5,143 | 0.66 | 4,363 | 0.65 |
| South | 3,311 | 0.64 | 5,272 | 0.69 | 5,272 | 0.60 |
| Stepnoy | 2,940 | 0.82 | 3,334 | 0.82 | 3,371 | 0.76 |
| West | 2,252 | 0.51 | 69 | 0.72 | 1,565 | 0.55 |
| Zhomart | 3,280 | 1.39 | 3,275 | 1.80 | 3,707 | 1.56 |
| North | 3,746 | 0.76 | 3,391 | 0.75 | 1,904 | 0.90 |
| **Total** | **24,124** | **0.84** | **23,779** | **0.87** | **23,309** | **0.82** |

*Source:* IMC Report

The Group operates all of the underground mines using vertical shafts. All of these mines employ room-and-pillar or secondary pillar extraction methods. The Group utilises conventional shovel and truck mining at its open pit mines. In the Zhezkazgan Complex, the Group transports substantially all of its ore a maximum distance of 170 km (Zhomart) from the mines on the Group's own railway lines to the two concentrators at Zhezkazgan while the remainder of the ore is transported to Satpaev. The Zhezkazgan Complex began mining operations in the early 20th century.

### *Concentrators*

Concentrating consists of crushing and grinding the ore and separating copper material from waste material by flotation, resulting in a copper concentrate. Kazakhmys operates three concentrators at the Zhezkazgan Complex: two in Zhezkazgan and one in Satpaev.

The two concentrators in Zhezkazgan have a combined capacity of 22.5 Mt per annum. Zhezkazgan No. 1 concentrator was commissioned in 1954 and has been expanded twice to increase its throughput. It processes ore from the South and East mines. Zhezkazgan No. 2 concentrator was commissioned in 1963. It processes ore from the North, South, West, Zhomart and Stepnoy mines. The copper concentrate from Zhezkazgan No. 1 and No. 2 concentrators is pumped to the smelter for processing.

The Satpaev concentrator is located approximately 25 km from the main metallurgical complex at Zhezkazgan. It commenced operations in 1985 and has a design production capacity of 4.4 Mt per annum. It processes ore from the Annensky and East mines, which is located 6 km from the concentrator. The copper concentrate produced by the Satpaev concentrator is transported by the Group's own railway lines to the smelter at the Zhezkazgan Complex for processing.

Kazakhmys Copper's copper concentrate and copper in concentrate production from each concentrator at the Zhezkazgan Complex for the years ended 31 December 2008, 2009 and 2010, respectively is set out below.

| | Year ended 31 December | | | Year ended 31 December | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Copper Concentrate Produced (kt) | | | Copper in Concentrate (per cent.) | | |
| Zhezkazgan No. 1 | 202 | 223 | 218 | 37.7 | 39.5 | 39.4 |
| Zhezkazgan No. 2 | 191 | 181 | 166 | 38.1 | 39.5 | 39.3 |
| Satpaev | 101 | 88 | 79 | 27.0 | 25.1 | 24.5 |
| **Total Zhezkazgan Complex** | **494** | **492** | **463** | **35.7** | **36.9** | **36.8** |

*Source:* IMC Report

In 2010, the Zhezkazgan Complex produced 463 kt of copper concentrate, with 36.8 per cent. copper in concentrate.

### *Smelting/refining facilities*

The Zhezkazgan Complex has its own smelting facility. The Zhezkazgan smelter, which commenced operations in 1973, uses Outokumpu Oy technology and consists of two identical 27 MVA electric smelting furnaces, converters, anode furnaces and a sulphuric acid plant. Sulphur dioxide off-gases collected from the furnaces and converters are processed into sulphuric acid at the sulphuric acid facility and used internally or sold to third parties. One of the two Zhezkazgan smelter furnaces was suspended for refurbishment and recommenced operations in May 2010. The second furnace was suspended in July 2010 for a full overhaul programme and surplus concentrate was sent to Balkhash to be processed into copper cathodes. With one furnace suspended, the current capacity of the two smelters is sufficient for the Group's current concentrate production.

The Zhezkazgan Complex also has an electro-refinery where anodes are suspended in solution in the tankhouse to produce copper cathode, which is one of the Group's key

products, by electrolysis. The Zhezkazgan smelter/refinery currently has a design production capacity of 200 kt per annum of copper cathode. In 2010, copper cathode production was 117 kt, excluding tolling, and the copper content of the copper cathodes was 99.99 per cent. The residual slimes that result from the electrowinning process contain silver in solution and are sent to the Balkhash precious metals refinery for extraction of the silver.

The Zhezkazgan smelter and copper refinery treat the copper concentrate produced in the Zhezkazgan Complex and can also treat concentrate from third parties to maximise throughput of the smelter and improve efficiency. This concentrate can be either purchased or treated on a tolling basis.

#### *Copper rod plant*

The Zhezkazgan Complex has a Southwire SCR 2000 continuous copper rod plant that began operations in 1994. The plant produces 8 mm copper rods from copper cathode and has the capacity to produce, but is not currently producing, 16 mm and 18 mm copper rods should there be demand for such products. The copper rod plant has an annual capacity of 50 kt, and the copper content of the copper rods produced in 2010 was 99.99 per cent. The copper rod plant has ISO 9001 accreditation.

#### *Power Station*

The Zhezkazgan Complex has benefited from a fully-operational captive power and heat station since 1959. In 2010, the Zhezkazgan power station produced 896 GWh of electricity, meeting approximately 70 per cent. of the total electricity needs of the Group's Zhezkazgan Complex operations during the year. The Zhezkazgan power and heat station is fuelled by Kazakhmys' own coal supply from its Borly coal mines (see "—Borly coal mines" below).

### Balkhash Complex

#### *Reserves and resources*

*Metal reserves and resources*

Kazakhmys Copper's metal reserves and resources as at 1 January 2011 at the Balkhash Complex are set out below.(1)

| Reserves | kt | Copper (per cent.) | Zinc (per cent.) | Gold (g/t) | Silver (g/t) |
|---|---|---|---|---|---|
| Proved | 65,286 | 0.48 | — | 0.15 | 1.19 |
| Probable | 132,506 | 0.59 | — | 0.10 | 0.60 |
| **Total** | **197,792** | **0.55** | **—** | **0.11** | **0.79** |

| Resources | kt | Copper (per cent.) | Zinc (per cent.) | Gold (g/t) | Silver (g/t) |
|---|---|---|---|---|---|
| Measured | 1,327,573 | 0.40 | — | 0.05 | 1.38 |
| Indicated | 2,144,627 | 0.39 | — | 0.03 | 1.40 |
| **Total** | **3,472,200** | **0.39** | **—** | **0.04** | **1.39** |

*Source:* IMC Report

(1) Resources for the Balkhash Complex include project mines.

*Copper production*

Kazakhmys Copper's copper production levels at the Balkhash Complex, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| **(kt, except as noted)** | **2008** | **2009** | **2010** |
| Ore mined | 2,998 | 2,276 | 2,361 |
| Average ore grade (per cent.) | 1.03 | 1.32 | 1.24 |
| Copper concentrate | 267 | 207 | 240 |
| Copper in concentrate (per cent.) | 14.5 | 18.2 | 17.3 |
| Copper cathodes | 197 | 199 | 189 |
| —of which, copper rod | — | — | — |

*Source:* IMC Report

*Zinc and precious metals production*

Kazakhmys Copper's zinc and precious metals production levels at Balkhash, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| Average zinc ore grade (per cent.) | — | — | — |
| Zinc in concentrate (kt) | — | — | — |
| Average silver ore grade (g/t) | 3.60 | 4.45 | 4.62 |
| Silver (g/t) | 41.5 | 56.2 | 84.4 |
| Average gold ore grade (g/t) | 0.39 | 0.34 | 0.29 |
| Gold (g/t) | 2.6 | 38.4 | 27.9 |

*Source:* IMC Report, Company

***Operations***

The Balkhash Complex is a fully integrated copper production facility comprising mining, mineral processing, smelting and refining operations. The concentrate processed at the Balkhash Complex comes from three principal mining areas: the mines in the vicinity of Balkhash and those in the East Region, in the vicinity of Ust-Kamenogorsk, and Karaganda Region, in the vicinity of Karaganda.

The Balkhash Complex includes the following principal operations:

- the underground ore mining operations (Shatyrkul and Sayak I and III mines);
- the mineral processing facility (the concentrator at the Balkhash Complex);
- the copper smelting/refining operation;
- the open pit ore mining operations (Konyrat), when operational;
- the precious metals refinery; and
- the captive power and heat station.

### *Mines*

The following table shows general information on the mines at the Balkhash Complex.

| Mine | Type | Estimated life of mine |
|---|---|---|
| | | *(years)* |
| Konyrat[1] | Open pit | 19 |
| Shatyrkul | Underground | 20+ |
| Sayak I and III[2] | Underground | 9.5 and 7 |

*Source:* IMC Report
(1) Operations at the Konyrat mine have been suspended since November 2008.
(2) Sayak III includes the Tastau mine.

*Konyrat Mine*. The Konyrat mine began production in 1934. The mine is an open pit copper mine located 16 km north of the town of Balkhash. Mining is carried out using a conventional shovel and truck method, and the mine is linked to the Balkhash Complex by a railway line owned by the Group and by the national railway network. Operations at the Konyrat mine have been suspended since November 2008 due to continued operations being deemed uneconomic.

*Shatyrkul Mine*. The Shatyrkul mine began operations in 1999 as an open pit mine and continued until 2002, when operations were moved underground. The Shatyrkul mine is located approximately 220 km north of Almaty and 500 km south-west of Balkhash, near the town of Shu. Mining is carried out by trackless equipment using the continuous retreat sub-level caving method. Ore is transported by the Group's own railway line and by the national railway network to the Balkhash concentrator.

*Sayak I and III Mines*. The original Sayak I and III mines were open pit mines that began operations in the 1970s. The mines are approximately 10 km apart and located approximately 200 km east of Balkhash. The current Sayak I and III mines are underground mines accessed by adits from the old open pit mines. Mining is carried out by trackless equipment using multi-lift room-and-pillar operations. Ore is transported by the Group's own railway line and by the national railway network to the Balkhash concentrator.

The ore output from the operational mines that belong to the Balkhash Complex for the years ended 31 December 2008, 2009 and 2010, respectively is set out below.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | kt | Copper (per cent.) | kt | Copper (per cent.) | kt | Copper (per cent.) |
| Konyrat[1] | 874 | 0.29 | — | — | — | — |
| Shatyrkul | 371 | 2.48 | 545 | 2.26 | 559 | 2.25 |
| Sayak I and III[2] | 1,753 | 1.10 | 1,731 | 1.02 | 1,802 | 0.93 |
| **Total** | **2,998** | **1.03** | **2,276** | **1.32** | **2,361** | **1.24** |

*Source:* IMC Report
(1) Operations at the Konyrat mine have been suspended since November 2008, and Konyrat is not currently included in Kazakhmys Copper's total mine count.
(2) Sayak III includes the Tastau mine.

### *Concentrator*

The Balkhash concentrator was commissioned in 1937. It has a nameplate ore processing capacity of 10.5 Mt per annum. The Balkhash concentrator processes ore from

the Konyrat (when operational), Shatyrkul, Sayak I and III mines and historically from the Nurkazgan mines from the Karaganda Region.

Kazakhmys Copper's copper concentrate production from the Balkhash concentrator for the years ended 31 December 2008, 2009 and 2010 is set out below.

| | Year ended 31 December | | | Year ended 31 December | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Copper Concentrate Produced (kt) | | | Copper in Concentrate (per cent.) | | |
| Balkhash | 267 | 207 | 240 | 14.5 | 18.2 | 17.3 |

*Source:* IMC Report

***Smelting/Refining Facilities***

The Balkhash Complex has its own smelting facility. The smelter was built in the late 1930s. It has been refurbished since its construction, including the installation of Vanyukov bath smelting technology in the 1980s, the installation of a second Vanyukov unit in 2004 and the addition of a fourth oxygen workshop in 2007. The smelter uses autogenous technology and consists of two smelting furnaces, converters and anode furnaces. A sulphuric acid plant was completed in 2008.

The Balkhash Complex also has an electro-refinery to produce copper cathode. The smelter/refinery has a design production capacity of 210 kt per annum of copper cathode. In 2010, copper cathode production was 189 kt, excluding production from tolling, and the copper content in the copper cathodes was 99.99 per cent. The residual slimes that result from the electrowinning process contain gold and silver. These slimes are sent to the Balkhash precious metals refinery for gold and silver extraction.

The Balkhash smelter and copper refinery treats all the copper concentrate from Balkhash and copper concentrate from the East Region and can also treat concentrate from third parties to maximise throughput of the smelter and improve concentration efficiency. This concentrate is either purchased or treated on a tolling basis.

***Balkhash zinc hydrometallurgical plant***

Production at the Group's zinc plant started in late December 2003. The East Region and Karaganda concentrators of Belousovsky, Irtyshsky, Nikolayevsky, Orlovsky and Karagaily produce zinc concentrate which, following the opening of the Balkhash zinc hydrometallurgical plant in December 2003, was shipped by rail to Balkhash where it was processed into zinc metal that was sold directly to customers. Operations at the Balkhash zinc plant were suspended in March 2009 for economic reasons, and the Group currently sells all of the zinc concentrate produced by its East Region concentrators to third parties.

***Balkhash Complex precious metals refinery***

The Balkhash precious metals refinery was commissioned in 1997 to recover gold and silver from the slimes from all the Group's operations. It has a production capacity of 322 koz of gold and 21.7 million ounces of silver. The Group also treats slimes from third parties on a tolling basis. The refinery employs technology from Boliden AB of Sweden. De-copperised

anode slimes are sent to the precious metals refinery from the Balkhash and Zhezkazgan copper refineries. These are pressure-leached with sulphuric acid in an autoclave and processed by a Kaldo rotary converter to produce anodes. The anodes are refined by electrolysis producing fine, 99.99 per cent. pure silver crystals which are melted and can be sold in granular or bullion form. The anode slimes are leached of residual silver by nitric acid to recover the gold. The gold is melted, cast into anodes and electro-refined, and then melted and cast into 99.99 per cent. pure bars.

The refinery produced 127 koz of gold and 14,903 koz of silver in 2010 and 12 koz of gold and 13 koz of silver on a tolling basis.

#### *Power Station*

The Balkhash Complex has benefited from a fully-operational captive power and heat station since the 1930's. In 2010, the Balkhash power station produced 773 GWh of electricity, meeting approximately 61 per cent. of the total electricity needs of the Group's Balkhash Complex operations during the year. The Balkhash power and heat station is fuelled by its own coal supply (see "—Borly coal mines" below).

### East Region

#### *Reserves and resources*

*Metal reserves and resources*

Kazakhmys Copper's metal reserves and resources as at 1 January 2011 in the East Region are set out below.(1)

| Reserves | kt | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Proved | 42,405 | 2.60 | 4.23 | 0.73 | 54.20 |
| Probable | 14,039 | 1.59 | 2.39 | 0.29 | 37.25 |
| **Total** | **56,444** | **2.35** | **3.77** | **0.62** | **49.99** |

| Resources | kt | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Measured | 42,423 | 2.82 | 4.91 | 0.84 | 63.15 |
| Indicated | 41,175 | 1.85 | 4.64 | 0.60 | 71.55 |
| **Total** | **83,598** | **2.34** | **4.78** | **0.72** | **67.29** |

*Source:* IMC Report

(1) Resources for the East Region include project mines.

*Copper production*

Kazakhmys Copper's copper production levels in the East Region, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| (kt, except as noted) | Year ended 31 December 2008 | 2009 | 2010 |
|---|---|---|---|
| Ore mined | 4,880 | 4,458 | 4,610 |
| Average ore grade (per cent.) | 2.82 | 2.89 | 2.48 |
| Copper concentrate | 584 | 595 | 465 |
| Copper in concentrate (per cent.) | 19.0 | 18.2 | 18.4 |
| Copper cathodes | — | — | — |

*Source:* IMC Report

*Zinc and precious metals production*

Kazakhmys Copper's zinc and precious metals production levels in the East Region, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December 2008 | 2009 | 2010 |
|---|---|---|---|
| Average zinc ore grade (per cent.) | 4.24 | 4.15 | 4.76 |
| Zinc concentrate (kt) | 309 | 310 | 350 |
| Zinc in concentrate (per cent.)(1) | 41.8 | 43.8 | 44.1 |
| Average silver ore grade (g/t) | 66.22 | 62.30 | 73.21 |
| Silver (koz)(2) | 172.4 | 187.8 | 224.6 |
| Average gold ore grade (g/t) | 0.81 | 0.78 | 0.87 |
| Gold (koz)(2) | 1.9 | 1.8 | 2.0 |

*Source:* IMC Report, Company

(1) Production only from own concentrators within East Region.

(2) Grade in grammes per tonne of copper concentrate.

***Operations***

The Group's mining and mineral processing operations in the East Region include the following:

- the underground copper and zinc mining operations at the Orlovsky, Belousovsky, Irtyshsky, Nikolayevsky, Yubileyno-Snegirikhinsky and Artemyevsky mines; and
- four concentrators for on-site ore processing for its mines with an estimated life of 10 years or greater.

All concentrate produced by the Group's East Region processes is transported by the Group's own railway line and by the national railway network to the Balkhash Complex for smelting and refining.

***Mines***

The following table shows general information on the mines that belong to the East Region.

| Mine | Type | Estimated life of mine *(years)* |
|---|---|---|
| Orlovsky | Underground | 12 |
| Belousovsky[(1)] | Underground | 3 |
| Irtyshsky | Underground | 23 |
| Nikolayevsky | Underground | 11 |
| Yubileyno-Snegirikhinsky | Underground | 4 |
| Artemyevsky | Underground | 11 |

*Source:* IMC Report

(1) Operations at the Belousovsky mine were suspended from December 2008 to September 2010.

*Orlovsky Mine*. The Orlovsky mine has been in operation since 1977. The mine is an underground copper, zinc, gold and silver mine located approximately 130 km northeast of Semey. A drift and fill mining method with mechanised drift and a cemented backfill is used. The ore is processed on-site at the Orlovsky concentrator. In 2009, conveyors in the mine were introduced to increase production capacity and efficiency.

*Belousovsky Mine*. The Belousovsky mine began production in 1939 and was acquired by the Group in 1999. The mine is an underground copper and zinc mine located approximately 30 km northwest of Ust-Kamenogorsk. The mine uses the shrinkage stoping mining method in the upper levels, and trackless equipment with the room-and-pillar method in the lower levels. The ore is processed on-site at the Belousovsky concentrator. Operations at the Belousovsky mine were suspended in December 2008 and recommenced in October 2010.

*Irtyshsky Mine*. The Irtyshsky mine was recommissioned in 2001, following its acquisition by the Group in 1999 in a derelict condition. The mine is an underground copper, zinc, gold and silver mine located approximately 55 km northwest of Ust-Kamenogorsk. The mine uses the shrinkage stoping mining and pillar reclamation methods. The ore is transported by the Group's own railway and by the national railway network for processing at the Berezovsky concentrator.

*Nikolayevsky Mine*. The Nikolayevsky mine was commissioned as an open pit mine in 1964 and acquired by the Group in 1997. The mine moved to underground copper, zinc, gold and silver production during 2006 and is located approximately 100 km northwest of Ust-Kamenogorsk. The ore is processed on-site at the Nikolayevsky concentrator.

*Yubileyno-Snegirikhinsky Mine*. The Yubileyno-Snegirikhinsky mine has been in operation since 2003. It is an underground copper, zinc, gold and silver mine located approximately 125 km north of Ust-Kamenogorsk. The sub-level caving production areas are accessed by adits with a spiral ramp connecting the levels. The ore is processed at the Belousovsky and Nikolayevsky concentrators.

*Artemyevsky Mine*. The Artemyevsky mine began production in 2005. The mine is an underground polymetallic ore mine located approximately 280 km northwest of Ust-Kamenogorsk. The ore is processed at the Group's own Nikolayevsky concentrator and

at the Zyryanovsk concentrators owned by KazZinc, a third party. The ore hoisting system was replaced in 2009 to increase the capacity of the Artemyevsky mine, and a backfill concrete complex began operating at the mine in 2007.

The ore output from the operational mines that belong to the East Region for the years ended 31 December 2008, 2009 and 2010, respectively, is set out below.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | kt | Copper (per cent.) | kt | Copper (per cent.) | kt | Copper (per cent.) |
| Orlovsky | 1,528 | 4.99 | 1,621 | 4.41 | 1,538 | 3.67 |
| Belousovsky[1] | 211 | 1.02 | — | — | 18 | 1.28 |
| Irtyshsky | 481 | 1.41 | 480 | 1.51 | 425 | 1.38 |
| Nikolayevsky | 574 | 1.60 | 556 | 1.73 | 603 | 1.05 |
| Yubileyno-Snegirikhinsky | 538 | 3.15 | 603 | 3.26 | 629 | 3.30 |
| Artemyevsky | 1,548 | 1.68 | 1,198 | 1.72 | 1,397 | 1.76 |
| **Total** | **4,880** | **2.82** | **4,458** | **2.89** | **4,610** | **2.48** |

*Source:* IMC Report

(1) Operations at the Belousovsky mine were suspended from December 2008 to September 2010.

***Concentrators***

The Group operates four concentrators in the East Region. All are of conventional design with crushing, grinding and flotation facilities.

*Orlovsky Concentrator*. The Orlovsky concentrator has been in operation since 1988 and has an ore processing capacity of 1.6 to 1.7 Mt per annum. It processes ore from the Orlovsky mine. The copper and zinc concentrates produced by the Orlovsky concentrator are sent by the Group's own railway and by the national railway network to the Balkhash Complex for processing, or, in the case of zinc concentrate produced, sold directly to customers.

*Belousovsky Concentrator*. The Belousovsky concentrator was commissioned in 1939 and has an ore processing capacity of 0.3 to 0.4 Mt per annum. It processes ore from the Belousovsky and Yubileyno-Snegirikhinsky mines and was closed from December 2008 until September 2010 while operations at the Belousovsky mine were suspended. The copper and zinc concentrates produced by the Belousovsky concentrator are sent by the Group's own railway and by the national railway network to the Balkhash Complex for processing, or, in the case of zinc concentrate produced after the suspension of the Balkhash zinc hydrometallurgical plant in March 2009, sold directly to customers.

*Berezovsky Concentrator*. The Berezovsky concentrator was commissioned in 1952 and has an ore processing capacity of 0.5 Mt per annum. It processes ore from the Irtyshsky mine. The copper and zinc concentrates produced by the Berezovsky concentrator are sent by the national railway and by the national railway network to the Balkhash Complex for processing, or, in the case of zinc concentrate produced after the suspension of the Balkhash zinc hydrometallurgical plant, sold directly to customers.

*Nikolayevsky Concentrator*. The Nikolayevsky concentrator was commissioned in 1980 and has an ore processing capacity of 1.4 Mt per annum. It processes ore from the

Artemyevsky, Nikolayevsky, and Yubileyno-Snegirikhinsky mines, and also processed ore from the Kosmurun mine in the Karaganda Region prior to the mine's suspension in August 2008. The copper concentrate produced by the Nikolayevsky concentrator is sent by the national railway to the Balkhash Complex for processing, and the zinc concentrate produced is sold directly to customers.

Kazakhmys Copper's copper concentrate production from the East Region concentrators for the years ended 31 December 2008, 2009 and 2010 is set out below.

| | Year ended 31 December | | | Year ended 31 December | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Copper Concentrate Produced (kt) | | | Copper in Concentrate (per cent.) | | |
| Orlovsky | 343 | 340 | 267 | 20.2 | 18.9 | 18.9 |
| Belousovsky | 24 | 84 | 77 | 15.8 | 15.9 | 16.4 |
| Berezovsky | 33 | 35 | 28 | 16.9 | 17.9 | 17.6 |
| Nikolayevsky | 184 | 136 | 93 | 17.5 | 17.9 | 18.7 |
| **Total East Region** | **584** | **595** | **465** | **19.0** | **18.2** | **18.4** |

## Karaganda Region

### *Reserves and resources*

*Metal reserves and resources*

Kazakhmys Copper's metal reserves and resources as at 1 January 2011 in the Karaganda Region are set out below.(1)

| Reserves | kt | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Proved | 117,545 | 0.94 | 0.16 | 0.40 | 2.80 |
| Probable | 8,563 | 0.83 | 0.15 | 0.50 | 3.96 |
| **Total** | **126,108** | **0.93** | **0.16** | **0.41** | **2.88** |

| Resources | kt | Copper (per cent.) | Zinc (per cent.) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|
| Measured | 257,927 | 0.95 | 0.14 | 0.32 | 3.35 |
| Indicated | 773,869 | 0.40 | 0.01 | 0.15 | 0.33 |
| **Total** | **1,031,796** | **0.54** | **0.04** | **0.19** | **1.08** |

*Source:* IMC Report

(1) Resources for the Karaganda Region include project mines.

*Copper production*

Kazakhmys Copper's copper production levels in the Karaganda Region, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| **(kt, except as noted)** | **2008** | **2009** | **2010** |
| Ore mined | 3,673 | 1,896 | 2,655 |
| Average ore grade (per cent.) | 2.13 | 0.91 | 0.97 |
| Copper concentrate | 253 | 273 | 305 |
| Copper in concentrate (per cent.) | 15.2 | 8.3 | 9.1 |
| Copper cathodes | — | — | — |

*Source:* IMC Report, Company

*Zinc and precious metals production*

Kazakhmys Copper's zinc and precious metals production levels in the Karaganda Region, excluding production from tolling, for the years ended 31 December 2008, 2009 and 2010 are set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| Average zinc ore grade (per cent.)[1] | 1.31 | 4.27 | 2.81 |
| Zinc concentrate (kt) | 2 | 18 | 13 |
| Zinc in concentrate (per cent.) | 24.3 | 40.7 | 40.1 |
| Average silver ore grade (g/t) | 24.02 | 6.45 | 8.31 |
| Silver (g/t)[2] | 101.5 | 80.6 | 70.0 |
| Average gold ore grade (g/t) | 1.16 | 0.75 | 0.88 |
| Gold (g/t)[2] | 3.5 | 8.1 | 6.0 |

*Source:* IMC Report, Company

(1) Includes only mines from which zinc was produced during the year.

(2) Grade in grammes per tonne of copper concentrate.

***Operations***

The Group's mining and mineral processing operations in the Karaganda Region include the following:

- the open pit ore mining operations at Abyz;
- the open pit ore mining operations with further underground development at Kosmurun and Akbastau;
- the underground mining operations at West Nurkazgan;
- the mineral processing facilities at Karagaily and Nurkazgan;
- the Borly coal operations at Molodezhny and Kuu-Chekinsky; and
- the Karaganda power plant.

### *Mines*

The following table shows general information on the mines that belong to the Karaganda Region.

| Mine | Type | Estimated life of mine |
|---|---|---|
| | | *(years)* |
| West Nurkazgan[1] | Underground | 20+ |
| Abyz. | Open pit | 2 |

*Source:* IMC Report

(1) Operations at the Nurkazgan mine open pit have been suspended since October 2008; underground operations commenced February 2009.

*Nurkazgan Mines*. The Group commenced development of the Nurkazgan polymetallic field in 2003. The Nurkazgan mines consist of both open pit and underground mines, and is located approximately 35 km north of Karaganda. The mines feed into the Nurkazgan concentrator, which started ore processing in 2008. Prior to the Nurkazgan concentrator coming online, and during its ramp-up stage, ore was transported by the Group's own railway and by the national railway network to the Balkhash concentrator. Copper and zinc concentrates are transported by rail to the Balkhash Complex for smelting and refining. The open pit North Nurkazgan mine has been suspended since October 2008 due to economic reasons, while the underground West Nurkazgan mine commenced operations in February 2009. The Group is currently exploring an additional prospect in Southeast Nurkazgan.

*Abyz Mine*. The Abyz mine commenced production in 2005. The mine is a shovel and truck open pit copper-zinc-silver-gold-bearing mine located 100 km east of the town of Karkaralinsk. The ore is transported by 70 km by road to the Karagaily concentrator and the copper and zinc concentrates are then transported 700 km by national rail to the Balkhash Complex for smelting and refining. The mine was closed for major stripping works to remove waste throughout 2007 and again for a period of six months during 2009.

Ore production from the operational mines that belong to the Karaganda Region for the years ended 31 December 2008, 2009 and 2010, respectively, is set out below.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | kt | Copper (per cent.) | kt | Copper (per cent.) | kt | Copper (per cent.) |
| Nurkazgan | 575 | 0.65 | 1,729 | 0.85 | 2,190 | 0.81 |
| Abyz. | 436 | 1.70 | 167 | 1.60 | 465 | 1.73 |
| Kosmurun[1] | 299 | 2.73 | — | — | — | — |
| Akbastau[2] | 2,363 | 2.50 | — | — | — | — |
| **Total** | **3,673** | **2.13** | **1,896** | **0.91** | **2,655** | **0.97** |

*Source:* IMC Report

(1) Operations at the Kosmurun mine have been suspended since August 2008.

(2) Operations at the Akbastau mine have been suspended since December 2008.

### *Concentrators*

The Group operates two concentrators in the Karaganda Region.

*Karagaily Concentrator*. The Karagaily concentrator ceased operations in 1993 and was re-commissioned in February 2005. It has an ore processing capacity of 1.5 Mt per annum. It processes ore from the Abyz mine and also processed ore from the Kosmurun and Akbastau mines prior to their suspension. The copper and zinc concentrates produced by the Karagaily concentrator are sent 700 km by national rail to the Balkhash Complex for processing.

*Nurkazgan Concentrator*. The Nurkazgan concentrator processes ore from the West Nurkazgan underground mine and, prior to its suspension of operations, from the North Nurkazgan open pit mine. It has an ore processing capacity of 4 Mt per annum. The processed minerals are transported by rail to the Balkhash Complex for smelting and refining.

Kazakhmys Copper's copper concentrate production from the Karaganda Region concentrators for the years ended 31 December 2008, 2009 and 2010 is set out below.

| | Year ended 31 December | | | Year ended 31 December | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | Copper Concentrate Produced (kt) | | | Copper in Concentrate (per cent.) | | |
| Karagaily (Abyz) | 10 | 184 | 145 | 7.3 | 4.3 | 3.8 |
| Karagaily (Akbastau) | 165 | 14 | 37 | 15.1 | 9.9 | 8.8 |
| Karagaily (Kosmurun) | 26 | 8 | 41 | 10.4 | 3.8 | 8.7 |
| Nurkazgan (Akbastau) | 23 | 4 | — | 20.1 | 17.4 | — |
| Nurkazgan (Nurkazgan) | 29 | 63 | 82 | 18.8 | 19.8 | 18.8 |
| **Total Karaganda Region** | **253** | **273** | **305** | **15.2** | **8.3** | **9.1** |

*Source:* IMC Report

### *Karaganda power plant*

The Karaganda power plant is located approximately 50 km to the south-west of Karaganda. The power plant is a Soviet-designed coal-fired facility and its principal equipment dates from 1962 to 1967. Coal is delivered to the site by national rail from the Borly mines. Karaganda supplies electricity to the Group through the national grid on a credit system, supplementing the electricity provided by the captive power stations at the Zhezkazgan and Balkhash Complexes, and enabling Kazakhmys to effectively use its own power without purchasing electricity at commercial rates. In 2010, the Karaganda power plant produced 4,780 GWh of electricity (excluding internal consumption), half of which was used by the Group. The balance was sold to third party customers.

## Transport

Kazakhmys owns and maintains approximately 1,100 km of its own railways, which connect its operations with the main national rail trunk lines. In order to improve the efficiency and quality of transport services within the Group, management of the railway assets and services owned by Kazakhmys Copper have been outsourced to PTM LLP since 2007, whereby PTM LLP leases the assets from Kazakhmys and charges Kazakhmys a tariff for the transport services. Most of Kazakhmys Copper's raw materials and production are moved by

rail, using the transportation services of PTM LLP and the national rail company, Kazakhstantemirzholy JSC. The Group has experienced occasional delays when using the national rail system, as problems can arise with the availability of railway wagons from the national rail operator. PTM LLP leases approximately 100 locomotives and approximately 800 wagons from Kazakhmys Copper for use on the Kazakhmys-owned rail system, with the wagons used on the national rail system being mostly chartered from Kazakhstantemirzholy JSC.

Copper and zinc products are loaded onto trains at the Zhezkazgan and Balkhash Complexes. They are transported using the Kazakhstani national rail system either to a point just beyond the Chinese border, from where they are then taken to their ultimate destinations in China on Chinese trains, or across the Russian border on Russian trains to the Black Sea port of Novorossiysk for onward shipment to European and other customers. The Group has experienced some delays at the Chinese border in the past, due to the variation between Chinese and Soviet type wheel base length, which requires the wheel base to be changed at the border, and bottlenecks can occur during period of high traffic, particularly during holiday periods. In the worst cases, these delays have been as long as three months. Trains carrying Kazakhmys' copper products are accompanied by security personnel. Gold and silver are transported by armoured vehicles and exported by air.

Kazakhmys Copper generally concludes yearly contracts with rail shipping agents. The shipping rates are set to include the national rail tariffs, with a commission for the shipping agent. Because the rates are linked to U.S. Dollars, or, in the case of Russian rail tariffs, Swiss francs, the contracts also contain a mechanism for exchange rate fluctuations. Charges on each shipment are calculated by reference to the weight of the cargo and the destination. Weight established by the railway is final and determines the price payable by the buyer. Wagons carrying accompanying personnel are charged separately. The terms of trade vary by customer and product. Products sold to Chinese customers are delivered at the Kazakhstan—China border, which reduces the transport distance and therefore the transport cost associated with those sales. Products delivered at the border are done so on a CIP basis in respect of copper products and on DAP basis for zinc concentrate. European sales are routed via Novorossiysk seaport on an FOB or CIF basis, while silver and gold are transported by airplane from Almaty on an FCA or CIP basis.

Kazakhmys Copper has a large fleet of trucks and other road vehicles. Of the nine aircraft which Kazakhmys Copper owns, six are used for transporting employees and management and three are used to provide a limited regular commercial service between Almaty and Zhezkazgan. Kazakhmys engages 376 employees in its rail and other transportation divisions.

**Borly coal mines**

The Group's Borly operations include: two coal mines (Molodezhny, formerly Borlynskoe, and Kuu-Chekinsky); a rail transport division based in Nurinsk; and a road haulage division based in Prishakhtinsk. The mines produce coal to supply the Group's Karaganda power plant and its heat and power plants at the Zhezkazgan and Balkhash Complexes as well as other third-party customers. In 2010, the two coal mines produced approximately 8.1 Mt of coal. Approximately 90 per cent. was used by the Group's heat and

power plants and the remainder was sold externally. Coal is transported to the plants by rail, using a 130 km spur owned by the Group which runs from the Borly mines to the national rail system.

The Molodezhny coal mine is a surface strip mine that commenced operations in 1980. It is located approximately 130 km from Karaganda. The coal is mined and loaded onto the trains on site. In 2010, 7,455 kt of coal were mined from the Molodezhny mine.

The Kuu-Chekinsky open pit mine commenced operations in 1956 and is located approximately 50 km from Karaganda and 600 km and 430 km from Zhezkazgan and Balkhash, respectively. It is more difficult and costly to mine Kuu-Chekinsky as a result of its geology and the earlier removal of more easily mined coal. Coal is dispatched by rail principally to the Group's power stations, although there are sales to local customers. In 2010, 647 kt of coal were mined from the Kuu-Chekinsky mine.

The reserves of the Molodezhny and Kuu-Chekinsky coal mines, inclusive of losses and dilution, as well as the ash and sulphur content and net calorific value as at 1 January 2011 are set out below.

| | Proved (Mt) | Probable (Mt) | Total (Mt) | Ash ad(1) (per cent.) | CV ncvar(2) (kcal/kg) | Sulphur (per cent.) |
|---|---|---|---|---|---|---|
| Molodezhny | 273.7 | 94.1 | 367.8 | 46.0 | 3,600 | 0.5 |
| Kuu-Chekinsky | 15.5 | 5.8 | 21.3 | 41.0 | 4,200 | 0.6 |
| **Total** | **289.2** | **99.9** | **389.1** | **45.7** | **3,633** | **0.5** |

*Source:* IMC Report

Note: includes coal loss and increase in ash content

(1) ad refers to Air Dried.

(2) ncvar refers to net calorific value as received.

## SALES AND MARKETING

### Overview

In 2010, the Group's main product in terms of revenue was copper cathode, followed by copper rod and silver.

The table below provides selected sales information of the Group.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | Sales | | |
| | (kt, except as noted) | | |
| **Kazakhmys Copper** | | | |
| Copper cathode[1] | 338 | 311 | 282 |
| Copper concentrate (cathode equivalent) | 3 | 22 | — |
| Copper rod | 47 | 8 | 35 |
| **Total copper (cathode equivalent sales)** | **388** | **341** | **317** |
| Zinc metal in concentrate | 98 | 135 | 171 |
| Zinc metal | 49 | 17 | — |
| Gold (koz) | 124 | 132 | 135 |
| Silver (koz) | 17,140 | 16,397 | 13,514 |
| **MKM** | 273 | 237 | 254 |
| **Kazakhmys Gold** (koz)[2] | 55 | 47 | 42 |
| **Kazakhmys Power** (GWh)[3] | 5,774 | 9,737 | 6,528 |

(1) Includes copper used to produce copper rod and excludes production from tolling.
(2) Gold doré sales.
(3) Kazakhmys Power was acquired on 29 May 2008. Sales figures for 2008 represent the seven months ended 31 December 2008. Sales figures for 2010 represent the total sales for the period 1 January 2010 to 26 February 2010 and the portion of sales attributable to Kazakhmys under its joint venture with Samruk-Kazyna for the period 27 February 2010 to 31 December 2010.

The Group sells substantially all of its copper, zinc concentrate, gold and silver output through Kazakhmys Sales Limited. The Group is also able to treat concentrate from third parties; this concentrate is either purchased or to a limited extent treated on a tolling basis.

Historically, the Group has been flexible as to where it sells its copper. The proximity of its operations to China and its good infrastructure links to Black Sea ports gives it access to both Chinese and European markets. Due to the Chinese market's geographical proximity and anticipated growth in demand, Kazakhmys has developed its presence and customer base in China to take advantage of such growth. Historically, Kazakhmys has had a range of customers in Europe, consisting of both end users and major trading companies. This allows the Company to diversify its sales to a few select, large customers in China and in Europe, which is in line with the Company's overall policy of maximising profit while minimising risk.

### Revenue by destination

The importance of the Chinese and European markets to the Group is evident in the following breakdown of the Group's revenues by geographic market for the financial years ended 31 December 2008, 2009 and 2010.

| | Sales to third parties | | | | | |
|---|---|---|---|---|---|---|
| | Year ended 31 December | | | | | |
| | 2008 | | 2009 | | 2010 | |
| | *(US$ million)* | *(per cent.)* | *(US$ million)* | *(per cent.)* | *(US$ million)* | *(per cent.)* |
| Europe | 1,971 | 60.2 | 1,138 | 47.3 | 1,330 | 41.1 |
| China | 1,006 | 30.7 | 1,005 | 41.8 | 1,567 | 48.4 |
| Kazakhstan | 217 | 6.6 | 254 | 10.6 | 329 | 10.2 |
| Other | 82 | 2.5 | 7 | 0.3 | 11 | 0.3 |
| **Total** | **3,276** | **100** | **2,404** | **100** | **3,237** | **100** |

### Sales strategy

#### *Principal Strategy*

The Group has developed a sales strategy for its continuing operations intended to maximise the Group's financial return and minimise its risk profile. This sales strategy focuses on three fundamental factors:

*Sales stability*—allocating the majority of material to key major customers. These relationships have been developed over a number of years of trading with agreements being based on annual and multi-year contracts.

*Optimum pricing*—pricing terms are aimed to maximise the Group's profit. More favourable pricing terms can be achieved by selling to customers located close to Kazakhstan to minimise the costs of logistics and by selling to markets or destinations that have a higher relative Codelco premium.

*Reducing credit and performance risk*—terms are aimed at reducing the possibility of payment or contractual default. The Group seeks to reduce the risk on payment default through safe and reliable payment methods including, but not limited to, letters of credit, prepayment, COD and CAD. The Group seeks to reduce the risk of contractual default by focusing on sales stability and focusing on a small number of key major customers.

#### *Sales contracts*

The Group agrees sales contacts based on the following parameters:

*Annual and spot contract ratio*—the Group agrees annual contracts for typically 80 to 90 per cent. of forecast production, with the balance of actual production being sold on spot contracts. If appropriate, multi-year contracts may also be agreed. This ratio is to provide sufficient cover for production fluctuations over a year and to allow for different market conditions, such as in the situation of a seller's market where more production will typically be sold on spot, and in the situation of a buyer's market where more production will typically be sold using annual contracts.

*Annual contract negotiations*—the Group seeks to conclude annual contracts by the end of the fourth quarter of each year for sales in respect of the following calendar year.

*Pricing terms*—these are based on the LME and the annually declared Codelco premiums for grade A copper (regulated on the LME), based on the terms of trade (including delivery costs), which vary from customer to customer.

*Payment terms*—the objective is to have pricing terms that minimise credit risk. For sales into the European market, the Group generally requires payment prior to release of title, COD or CAD. Sales to the CIS generally require payment prior to release of title or COD. Sales to China are typically secured by letters of credit issued by major Chinese banks.

**Markets and customers**

***Markets***

*European*

Up to the year 2000, nearly all of the Group's copper products were sold into this market. The Group's goal in the European market is to focus on sales with key copper users, as opposed to traders, that have a relative logistics advantage. The Group has entered into multi-year contracts and agreements in principle with two key end user customers in Turkey. The Group also sells to European traders for onward sale to small- and medium-sized customers in the Black Sea and Mediterranean areas. The objective of these sales is to minimise credit risk whilst maximising premiums and enabling sales to be made on a spot basis. Sales volume has reduced from virtually all of the Group's sales before 2000 to 37 per cent. in 2010 due to the greater allocation of materials to China and CIS.

*China*

Prior to 1998, the Group did not trade in China as the logistics infrastructure and costs were prohibitive. The Group commenced trading with Chinese customers in 1998. This initial business was based on the significant Chinese tax exemption in place at the time to encourage cross-border transactions. This tax exemption gave relative advantage to Chinese traders despite the lower Shanghai exchange price and logistics difficulties. The annual volume increased to 240 kt between 1998 and 2003. The sales strategy changed for 2003 to 2005 as the tax advantage was removed. Despite this, the Group still executed significant business as Chinese customers could finance copper purchases via the use of letters of credit and use the proceeds of the onward sale for other trading activities in a growing economy. In 2006, the Chinese market environment was difficult as traders would not do business due to lower Shanghai prices and no tax or financing advantages. The Group changed its sales strategy to contract only with Chinese end users who were able to toll the material for re-export, which was therefore not subject to Chinese import duty. This gave the Group exposure to Chinese inland transportation and logistics to enable Kazakhmys to offer delivery into Chinese inland destinations. The volume reduced to 33 kt as a consequence of there being few customers that had suitable credit and performance risk profiles as well as the Company not being able to increase sales volumes to each individual customer. By 2007, the Group had developed a reliable relationship with a significant customer, Jiangxi Group, and the volume sold increased to 181 kt. This relationship has continued and volumes continue to increase.

According to GFMS, China's need for imported copper (defined as the difference between refined production and consumption) is expected to increase from 2.6 Mt in 2010 to 2.8 Mt in 2011, as a result of continued growth in the Chinese economy and local Chinese copper demand continuing to grow faster than local production. The Group views the Chinese market as strategically important to its operations and is seeking opportunities to deepen its Chinese customer base. The proportion of production sold has increased from 8 per cent. in 2006 to approximately 50 per cent. in 2010 and this proportion is likely to increase further.

***Customers***

As a result of its policy to conclude annual contracts for a significant portion of its production, the Group generally makes its sales to a number of customers each year. Revenue attributable to the Group's top five individual customers accounted for 50 per cent., 43 per cent. and 45 per cent. of total Group revenue from continuing operations in each of the years ended 31 December 2008, 2009 and 2010, respectively. In 2008 and 2009, Jiangxi Copper was the Group's largest customer. In 2010, the Group's largest group customer was Jiangxi Copper, with sales accounting for 27 per cent. of the Group's revenue from continuing operations in 2010. Er Bakir was the Group's second-largest customer in 2010, with sales accounting for 8 per cent. of the Group's revenue from continuing operations for the year.

None of the Directors, their associates or any shareholder holding more than five per cent. of the Company's share capital had any interest in any of the Group's five largest customers in 2008, 2009 or 2010.

## EXPANSION PLANS AND PROJECTS

The Group has a number of mining projects in Kazakhstan to provide for organic production growth and, in the longer term, production replacement. Production from the majority of these projects is anticipated to begin in the short to medium term (i.e., within a five year timeframe), and to include both new sites and continuations of existing mines. The Group's primary growth projects are Bozshakol and Aktogay where economic assessments and site studies continue. Funding for Bozshakol and other medium-sized projects has been secured from China Development Bank. The Group has also entered into a non-binding memorandum of understanding with China Development Bank for funding of the Aktogay project.

### Major Projects

***Bozshakol Complex***

The Bozshakol open pit project is located in the Pavlodar region. The size of the deposit has the potential to increase significantly if mineralisation in the eastern section of the deposit is proven. A pre-feasibility study was completed in 2009. The Group completed additional engineering to confirm these opportunities in the second half of 2009. A draft feasibility study was prepared in the fourth quarter of 2010, and the Group is currently evaluating the results of that study. Further drilling, particularly to obtain data in relation to the deposit's gold resource and to assist in the development of the mine plan, was completed in the first half of 2011. A revised feasibility study is scheduled to be issued in the fourth quarter of 2011. The pre-feasibility study indicated that Bozshakol has a management-estimated

1,184 Mt of ore to be extracted over the life of mine, at a 0.35 per cent. copper grade and up to 4.1 Mt of copper. Management estimates that the Bozshakol project will process 27 Mt of ore annually. The basic engineering for the Bozshakol project is on track to be completed during the third quarter of 2011 and long lead items, notably the mills and drive systems, have been ordered. Ore production from the Bozshakol deposit is expected to commence in 2015. The mine has an expected life of 40 years. The project will also include the construction of an on-site concentrator.

The development of the Bozshakol project will be funded from the loan facility negotiated with the China Development Bank and Samruk-Kazyna, and during 2010, the Group drew down US$400 million from the loan facility for the project.

***Aktogay Complex***

The Aktogay mine, located in the Balkhash region, is also intended to provide significant production growth for the Group. The project will be divided into the development of the deposit's sulphide resource and oxide resource. A combined sulphide and oxide pre-feasibility study was completed in October 2009. Aktogay has a management-estimated 1,148 Mt of sulphide ore to be extracted over the life of mine at a 0.38 per cent. copper grade and up to 4.4 Mt of copper. Aktogay has a management-estimated 119 Mt of oxide ore to be extracted over the life of mine at 0.37 per cent. copper grade and up to 0.4 Mt of copper. The project will include an on-site processing plant and concentrator.

The Group is likely to proceed with the feasibility study for the main sulphide deposit in 2011 and also to update the feasibility study for the oxide deposit. On 13 June 2011, the Group entered into a non-binding memorandum of understanding with China Development Bank for the development of the project, with the expectation of concluding a loan agreement by the end of 2011.

**Medium-sized Projects**

The Group is currently conducting technical studies with respect to several medium-sized projects, as described below, to assist the Group in determining how to allocate available funding for these projects. The technical studies consider, among other things, geology and mineral resources, mining, processing, marketing, site infrastructure and utilities, human resources, mine operations, transportation and logistics, environment, project execution capital costs, operation costs and financial evaluation. In March 2010, the Group drew down US$200 million from its loan facility with CDB and Samruk-Kazyna for development of its medium-sized and other projects.

***Kosmurun—Akbastau Mines and Concentrator***

The Kosmurun polymetallic ore mine began production as an open pit mine in 2006. Ore from the mine is sent to the Karagaily concentrator (215 km) and the concentrate is then transported by the Group's own railway and by the national railway network to its smelters and refineries at the Balkhash Complex. The Kosmurun open pit mine was closed in August 2008 due to depletion of the open pit. Development of a Kosmurun underground mine forms part of the Group's expansion plans for the Karaganda region.

The Akbastau mine, which has a relatively high gold content, commenced open pit production in January 2008. Operations at the Akbastau mine were suspended in December 2008.

The Kosmurun and Akbastau mines are currently suspended as the ore bodies are being preserved ahead of the construction of a new concentrator at Akbastau. The new concentrator will be used by both the Kosmurun and Akbastau mines to reduce ore transportation costs. The drilling programme for the Akbastau and Kosmurun underground mines and the associated concentrator project was completed in 2010. The results from the drilling work are expected to be processed in the third quarter of 2011 and a feasibility study for the project is expected to be completed in 2012. The initial ore production from the Akbastau mine is expected in late 2014.

***Nurkazgan underground mine***

The West Nurkazgan underground mine is part of the Karaganda Region operations, and is an extension of the Nurkazgan open pit mine. The Nurkazgan deposit has ore resources of 200.6 Mt containing 1.8 Mt of copper. Production from the underground mine commenced in February 2009, and funding has been allocated to develop the mine's infrastructure to enable a ramp up of production and development of future areas of the deposit.

***Shatyrkul extension***

The Shatyrkul mine is part of the Balkhash Complex and has ore resources of 23.6 Mt, containing 811 kt of copper. Production from the Shatyrkul underground mine began in 2002, and the Group is now in the process of designing a second stage extension to the Shatyrkul mine that is expected to increase the mine's annual ore production.

***Zhomart second stage***

The Zhomart mine is part of the Zhezkazgan Complex, and has proved and probable reserves of 64.4 Mt, containing 0.6 Mt of copper. Production from the Zhomart underground mine began in 2006, and the Group is now planning to complete advanced exploration and design of the second stage extension to increase the annual production. During the second half of 2010, geological work commenced on the second phase of the Zhomart mine and drilling work will continue throughout 2011.

**Other projects**

The Group is reviewing and assessing project opportunities at other mines, including Zhaisan (design); South East Nurkazgan (advanced exploration); North Nikolayevsky (design); and Sayak IV (design).

The Group will also commence major projects to modernise and expand the processing capacity of a number of concentrators, the benefit of which will be a reduction in transportation costs and an increase in recovery rates. In addition, over the next five years, the smelter base will be subject to major refurbishment to modernise operations to effectively treat complex lead, zinc and copper ore bodies.

### Research and Development

The Group does not currently engage in any research and development activities apart from exploration, research and development necessary to support its mining activities, as discussed above.

## KAZAKHMYS GOLD

### Introduction

Eurasia Gold Inc. was acquired by Kazakhmys Gold Inc. in 2007 and is now part of Kazakhmys Gold. The principal activity of Kazakhmys Gold is the mining and processing of gold ore into refined doré.

### Reserves and Resources

Kazakhmys Gold has reserves of 922 kt of ore at its currently operating mine, Mukur, containing 1.23 g/t of gold. The Group anticipates that its gold reserves and resources will increase following exploration at the Bozymchak development project.

Kazakhmys Gold's metal reserves and resources at the Mukur mine as at 1 January 2011 are set out below.

| Reserves | kt | Copper (per cent.) | Silver g/t | Gold g/t |
|---|---|---|---|---|
| Proved | — | — | — | — |
| Probable | 922 | — | — | 1.23 |
| **Total** | **922** | **—** | **—** | **1.23** |

| Resources | kt | Copper (per cent.) | Silver g/t | Gold g/t |
|---|---|---|---|---|
| Measured | — | — | — | — |
| Indicated | 872 | — | — | 1.35 |
| **Total** | **872** | **—** | **—** | **1.35** |

*Source:* IMC Report

Kazakhmys Gold's metal reserves and resources at the Bozymchak development project as at 1 January 2011 are set out below.

| Reserves | kt | Copper (per cent.) | Silver g/t | Gold g/t |
|---|---|---|---|---|
| Proved | 6,639 | 0.84 | 8.54 | 1.43 |
| Probable | 8,788 | 0.84 | 8.36 | 1.36 |
| **Total** | **15,427** | **0.84** | **8.44** | **1.39** |

| Resources | kt | Copper (per cent.) | Silver g/t | Gold g/t |
|---|---|---|---|---|
| Measured | 6,240 | 0.96 | 9.77 | 1.63 |
| Indicated | 13,714 | 0.80 | 7.45 | 1.52 |
| **Total** | **19,954** | **0.85** | **8.18** | **1.56** |

*Source:* IMC Report

### Mines

Kazakhmys Gold has one operating mine in Kazakhstan, Mukur. Production from this mine has demonstrated falling gold content, and the Group expects operations from the mine to cease during 2012. To improve the efficiency of the Group's operational management structure, Kazakhmys Gold mines are expected to be incorporated into the Kazakhmys Copper operational structure during 2011.

Construction on the Bozymchak project site began in 2010. The project has been impacted by social unrest, which delayed the commencement of stripping works and the delivery of equipment to the site. The processing plant was built in China and delivered to the site in 2010, and although construction work on infrastructure was delayed, resulting in first concentrate sales being postponed from the initial fourth quarter 2010 target, the situation at the mine site is currently stable. In March 2010, the Group drew down US$100 million from its loan facility with CDB and Samruk-Kazyna for the continuing development of the project. The Group expects open pit mining operations to commence and first ore produced in the second half of 2012. Bozymchak is anticipated to progress to underground mining operations following completion of the open pit mining operations. Once fully commissioned, the expected annual production is 7 kt of copper concentrate and 30 koz of gold.

The following table shows general information on the mines that belong to the Karaganda Region.

| Mines[1] | Type | Estimated life of mine |
|---|---|---|
| | | *(years)* |
| Mukur | Open pit | 3 |
| Bozymchak[2] | Open pit/Underground | 18 |

*Source:* IMC Report

(1) Kazakhmys Gold also includes the small Mizek mine, which was closed in November 2010 following the exhaustion of extractable reserves.

(2) Bozymchak is a project mine.

## KAZAKHMYS POWER

### Introduction

The Ekibastuz power station and Maikuben coal mine (now sold) were acquired by the Group from AES Corporation in May 2008, and together these assets form the core of the Kazakhmys Power division. Kazakhmys Power primarily engages in the sale of electricity and coal to external customers, and therefore does not include the power stations and coal mines that are part of Kazakhmys Copper, as the output from those power stations and coal mines is primarily used within the Kazakhmys Copper business. The Ekibastuz power station was a strategic asset purchase, as it is the largest source of thermal power in Kazakhstan. This acquisition was intended by the Group to diversify its business into the Kazakhstan power market and also secure the Group's future power needs for its major expansion mining projects at Bozshakol and Aktogay. Kazakhmys agreed a strategic partnership in October 2008 with Samruk-Kazyna (a wholly owned subsidiary of the Government) in which Kazakhmys and Samruk-Kazyna agreed to consider entering into a joint ownership and operation of Ekibastuz. Since February 2010, the Ekibastuz power station has been jointly owned with Samruk-Kazyna, which paid US$681 million in consideration for a 50 per cent. interest in Ekibastuz GRES-1 LLP. The consideration was determined by reference to the

price paid by the Company when it acquired the power station in 2008 and subsequent investments in Ekibastuz made by the Company. This partnership with Samruk-Kazyna provides a closer relationship with the Bogatyr mine (jointly owned by Samruk-Kazyna and UC Rusal) which supplies, almost exclusively, Ekibastuz's coal requirements, and greater integration with the Kazakhstan power grid (which is operated by KEGOC, a Samruk-Kazyna owned business). Following that transaction the Group has retained a 50 per cent. non-controlling interest in the entity. Under a joint venture agreement between Kazakhmys and Samruk-Kazyna, Kazakhmys and Samruk-Kazyna manage the station in alternating five-year terms, with Kazakhmys managing the station for the initial five years starting in 2010.

**Operations**

The Ekibastuz power station is a coal-fired facility located in the Pavlodar Oblast in north-eastern Kazakhstan. It is the largest power station in Kazakhstan with a nameplate capacity of 4,000 MW. In 2010, it produced 11,065 GWh of electricity as compared to 9,737 GWh in 2009 and 10,402 GWh in 2008 (of which 5,774 GWh was attributable to Kazakhmys following its acquisition in May 2008). The production attributable to Kazakhmys in 2010 (i.e. 100 per cent. of the net power generated until the disposal on 26 February 2010 and 50 per cent. thereafter) was 6,528 GWh. As at 31 May 2011 the net dependable capacity at the station was 2,211 MW.

***Expansion Plan***

The power station is undergoing a US$1.0 billion expansion programme to upgrade the station and restore the station's nameplate capacity of 4,000 MW, allowing the Group to capitalise on the expected growth in electricity demand and raised tariff ceilings on domestic electricity sales in Kazakhstan through to 2015. The programme will be funded jointly by Kazakhmys and Samruk-Kazyna, self-financed through the power station's own revenues. The rehabilitation of two of the three dormant units is underway, with the first unit expected to be commissioned at the end of 2012. The second unit, which requires more extensive work, is scheduled to be commissioned by the end of 2014. As part of a cyclical programme to maintain the five operating units of the Ekibastuz station, Unit 3 underwent the first phase of a two-phase overhaul which was completed at the end of October 2010. The second phase of the overhaul is planned for 2011. As part of an environmental improvement programme, each of the Ekibastuz station's units will be fitted with new electrostatic precipitators designed to reduce ash emissions.

The tariffs the Group charges are negotiated with customers, subject in Kazakhstan to a tariff ceiling. The Government is progressively raising the maximum price that can be charged, on the condition of investment in expanding the power capacity of the power station. With the tariff ceilings currently in effect, the Group accelerated its modernisation plan at the end of 2010 by commencing the upgrade of Unit 2. For information regarding historical tariff ceilings and average domestic tariff realised, see "Industry Overview—Kazakhstan Power Sector Overview" and "Financial Information—Factors Affecting Results of Operations—Prices and Tariffs".

***Coal***

The Maikuben West coal mine is located in the Pavlodar Oblast in north-eastern Kazakhstan, approximately 65 km from Ekibastuz. The Maikuben West coal mine's annual

production output was 5,307 kt of coal in 2010, which was approximately 44 per cent. higher than the previous year, largely due to increased demand from the Russian power market. Because Ekibastuz sources coal largely from the nearby Bogatyr mine, which is jointly owned by Samruk-Kazyna and UC RUSAL, the strategic value in owning the Maikuben West coal mine was reduced. The mine was sold on 17 May 2011.

## KAZAKHMYS PETROLEUM

### Introduction

The Group acquired Eastern Akzhar (now Kazakhmys Petroleum) in 2007. Kazakhmys Petroleum is the Group's oil exploration division which acquired the exploration rights to a 602 $km^2$ exploration block located to the south of Aktobe in western Kazakhstan. Kazakhmys is currently evaluating options for financing future development of its petroleum exploration business.

### Operations

The focus of exploration activities in 2010 was the deep well drilling programme which commenced in 2008. Kazakhmys Petroleum now has five deep appraisal wells in development.

The first deep well, a copy of a well drilled in the 1980s, reached the target depth of 5,185 metres and testing confirmed the presence of hydrocarbons; however recoverability was not determined due to technical difficulties. These have proved difficult to overcome, and a side-shaft has been drilled and acid treatment is being conducted to evaluate the well's viability.

The main drilling rig used on the first deep well was relocated to a new site and a second deep well was completed at a depth of 5,228 metres. The initial test results have confirmed the presence of hydrocarbons, however the well pressure was lower than anticipated. A number of options are being considered to raise the pressure including acid treatment, if results from other deep wells are sufficiently positive. Further testing is planned to take place following further work on the first and third wells.

The third deep well was drilled to its target depth of 5,200 metres in the first half of 2010. Acid treatment was undertaken, which resulted in a restricted flow of hydrocarbons for a three month period before testing was suspended to obtain the necessary permits. The hydro-dynamic surveys that are planned for the well, in order to assess the recoverable oil in place, commenced in January 2011.

The drilling of the fourth deep well started in May 2010 and reached its target depth of 5,250 metres at the beginning of December 2010. The testing of the well will be conducted during 2011.

The drilling programme for the fifth well, which included logging, cementing and coring, was completed in May 2011. The drilling equipment is currently being removed from the well. Following its removal, the equipment for the development will be installed and testing will commence.

3D seismic work commenced in 2009 on an area to the northwest of the field. The results of the testing will be used to determine the site of future deep wells. Based on the test

work done to date and the work done by DeGolyer and MacNaughton, the technical consultant, work continues to develop the asset.

## MKM

### Introduction

MKM was acquired by the Group on 15 December 2004. MKM produces and sells copper and copper alloy semi-finished products for various applications, including electrical distribution, electronics, data transmission and air conditioning in, among others, the construction, automotive, aviation and general engineering industries. In order to maintain the Group's primary geographical and strategic focus on natural resource production assets and opportunities principally within Central Asia, it has decided to dispose of MKM. MKM is currently considered held for sale. MKM is being sold through a competitive tender process, and the Group expects the sale of MKM to be completed during 2011.

MKM's copper requirements, mainly copper cathode, are purchased from copper producers outside the Group and from traders. It also has a worldwide sales team in place.

### Operations

MKM operates a plant in Hettstedt, in former East Germany, approximately 115 km north-west of Leipzig. MKM is organised into three business units: wire products, flat products (strips, plates and sheets), and tubes and bars. MKM's total production for 2010 was 254 kt, comprising 134 kt of wire products, 78 kt of flat products and 42 kt of tubes and bars.

### Sales and marketing

MKM's procures its materials from third parties based on prices set in reference to LME. MKM sells its products worldwide, either directly to industrial customers or through wholesalers. Major electrical engineering groups in the industry are among MKM's industrial customers. MKM has sales offices in Germany, France, Italy and the United Kingdom, these countries being the largest European markets for MKM's products. MKM has a sales office in the United States.

## ENRC

In 2007, the Group acquired an 18.8 per cent. interest in ENRC, which was subsequently increased to 26 per cent. between 2007 and 2008. The Group's investment in ENRC had a market value as at 31 December 2010 of US$5,431 million.

ENRC is a large diversified natural resources group with integrated mining, processing, energy, and logistical and marketing operations. The majority of its assets were acquired in the privatisation process undertaken in Kazakhstan in the mid-1990s. ENRC was formed as part of a reorganisation in 2006 to simplify the ownership structure of the assets and to consolidate them in a single group of companies. ENRC's main production assets are located in Kazakhstan.

ENRC's operations in Kazakhstan are vertically integrated with the ENRC group comprising six key operating divisions covering ferroalloys, iron ore, alumina and aluminium,

energy, logistics and other non-ferrous. The other non-ferrous division was added in November 2009 when ENRC completed its acquisition of Central African Mining and Exploration Company PLC (CAMEC). This acquisition adds cobalt and copper to its portfolio of products and further expands ENRC's geographic focus.

The ferroalloys division has chrome and manganese mines from which ferrochrome and other ferroalloys are produced. A second chrome ore pelletising plant at Donskoy GOK was completed in July 2009 providing additional output capacity of 700 kt per annum. The vertical integration of ENRC includes captive power, a factor giving ENRC a competitive position on the chrome cost curve.

The iron ore division mines and processes iron ore into concentrate and pellets.

The alumina and aluminium division operates two bauxite mines which feed an alumina refinery and an aluminium smelter. During 2009, a capacity expansion programme was commenced at the aluminium smelter, which was completed in May 2010 and is expected to increase the smelter's production capacity to 250 kt per annum.

The energy division operates the Vostochny open-pit coal mine and the Aksu coal fired power station making it one of the largest producers of electricity and coal in Kazakhstan.

The logistics division provides transportation and logistics services to ENRC's divisions in Kazakhstan and Africa along with third parties.

The other non-ferrous division includes output from the copper and cobalt operations in the Democratic Republic of Congo and Zambia, formerly of the Central African Mining & Exploration Company, which was purchased in November 2009, Chambishi Metals and Comit Resources, which was acquired in April 2010 and Société Minière de Kabolela et Kipese Sprl ("SMKK"), of which ENRC acquired the remaining 50.5 per cent. in August 2010. The first phase of the new cobalt SX/EW plant was commissioned in late 2010 with the second phase to be commissioned in the second quarter of 2011.

ENRC has completed the following transactions in 2010:

- February 2010—entered into a conditional agreement for the acquisition of Enya Holdings BV which principally holds a 90 per cent. interest in Chambishi Metals PLC, a Zambian copper and cobalt producer;

- April 2010—acquisition of 12.2 per cent. of Northam Platinum Limited;

- August 2010—acquisition of 50.5 per cent. of Camrose Resources Limited;

- September 2010—acquisition of 50 per cent. of Bahia Minerals BV and an option to acquire 100 per cent. of Greystone Mineração do Brasil Limitada; and

- October 2010—acquisition of 100 per cent. of Mineração Minas Bahia SA and 51 per cent. of Mineração Peixe Bravo SA.

For additional information with respect to ENRC's operations, see "Financial Information—ENRC".

## SUPPLIERS

As a vertically integrated copper producer, the Group's coal-fired captive power plants provide electricity for the Group's mining, smelting and refining operation. The Group's Borly coal mines produced approximately 8.1 Mt of coal in 2010, approximately 90 per cent. of which was used by the Group's heat and power plants. The Group also invests in training and education for employees of all levels and relies in large part on its own technical colleges and training centres to help assure the Group has access to skilled labour.

Mining uses large volumes of water, risking competition with local communities in regions where supplies are scarce. Water use must be managed at a local level, based on the level of impact. The Group operates in some areas that suffer drought in the dry season, including Zhezkazgan, and efficient water use is critical to the long-term viability of these operations. Total water consumption at Kazakhmys Copper and the Ekibastuz power plant was 1,860,059 megalitres in 2009. This increased by 8 per cent. to 2,001,672 megalitres in 2010 due to increased consumption at the Ekibastuz power plant in line with increased power generation. Of total water used by the two operations, 93 per cent. was recycled water. Of the freshwater withdrawn, almost 80 per cent. was non-potable and so did not compete with local drinking water supplies.

The Group relies on external suppliers for mining equipment, including trucks and explosives. To help assure a stable supply of such equipment, the Group relies on supply agreements with suppliers with which the Group has longstanding supply relationships. For the years ended 31 December 2008, 2009 and 2010, the Group's raw materials costs, which included such items as purchased copper concentrate, fuel, dynamite chemical reagents, were US$739 million, US$331 million and US$403 million, respectively.

The Group's suppliers include its suppliers for equipment and ancillary materials, contractors and fuel suppliers. For the years ended 31 December 2008, 2009 and 2010, the Group's five largest suppliers accounted for approximately 30 per cent., 18 per cent. and 18 per cent., respectively, of the Group's total purchases, while the largest supplier accounted for approximately 20 per cent., 5 per cent. and 5 per cent., respectively, of the Group's total purchases for the same periods.

None of the Directors, their associates or any shareholder holding more than five per cent. of the Company's share capital had any interest in any of the Group's five largest suppliers in 2008, 2009 or 2010.

## EMPLOYEES AND EMPLOYEE RELATIONS

The Group aims to provide good working conditions, to treat employees with respect and uphold their human rights at all times. Each division has employment policies appropriate to the cultural and legal requirements of its country of operation. These policies cover all aspects of employment and are designed to recruit and retain talented and motivated employees across the company.

Kazakhmys is one of Kazakhstan's largest employers. The average weekly number of employees during 2008, 2009 and 2010 was approximately 67,149, 61,629 and 60,970, respectively.

Kazakhmys' employees have individual employment agreements that cover, among other matters, base remuneration. Kazakhmys Copper also negotiates collective employment agreements, which primarily cover social benefits, with representatives of its union. The union represents substantially all of Kazakhmys Copper's employees. In Germany, employees are represented by a works council and approximately 50 per cent. of employees are members of the IG Metall union. Kazakhmys Gold has approximately 1,378 employees, of whom 1,001 are members of the Primary Trade Union Dank. Kazakhmys Petroleum has minimal employees as the work on site is performed by contractors.

The Group contributes to defined contribution pension schemes in the United Kingdom and Germany. Contributions to the Group's pension scheme in the United Kingdom are calculated by double-matching employee contributions up to 10 per cent. of salary. Contributions to the Group's pension scheme in Germany is determined by a pension contribution tariff agreed between IG Metall and the Employer Association of the German Metal Industry. The Group's pension scheme in Kazakhstan is utilised by its employees to contribute the required amounts under Kazakh law. The Group also operates a Save-As-You-Earn (SAYE) scheme for approximately 400 employees. In aggregate the Group contributed £30,637, £40,850 and £42,900 to its pension schemes in regard of the Group's five highest paid individuals for the years 2008, 2009 and 2010, respectively. For more information, please see "Business—Employees and Employee Relations".

The Company believes that all of the Group's operations have, in general, good relations with their employees and unions. There have been no material events of labour unrest during the Track Record Period.

The Group invests in training and education for employees of all levels. The Group provides formal education at colleges and universities, as well as courses in mining specialities at its own training facilities. The Company's purpose-built technical college in Satpaev offers classroom training as well as operational and safety training both above and below ground. At the end of 2009, the Group completed the construction of a second technical college at Balkhash, where the Group opened a similar training centre for employees in 2010. The Group requires all employees to pass periodic operational, health and safety refresher courses and tests, and assists many employees to retrain in a new speciality to help them develop their careers. More than 33,000 employees from the Group's Copper Division and Ekibastuz power plant received training in one or more of the areas described above, at a total investment of over US$1.1 million. The Copper Division sponsored an additional 200 high-potential employees aged up to 35 years, to begin part-time study at three technical universities in Kazakhstan, in subjects of high importance to the Group's business. More than 1,800 additional employees continue to receive further or higher education at the Group's technical colleges, plus colleges and universities in Kazakhstan and abroad.

## SHARE OPTION SCHEMES

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 2010 arising from these plans was US$3.1 million (2009: US$1.1 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 with the goals of the Group. The shares issued under these plans are ordinary shares as the Company purchased 379,825 shares at a cost of US$7 million during 2009 and 246,337 shares at a cost of approximately US$4 million during 2010 through an Employee Benefit Trust. For any future awards, the Company may issue new shares to the Employee Benefit Trust rather than purchase the shares in the open market. For additional information regarding the Company's share plans see "Appendix VI—Statutory and General Information".

### 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. Cash settlement is available under certain circumstances at the discretion of the Remuneration Committee.

The first awards under the LTIP, granted on 3 December 2007, 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. The awards did not vest and so lapsed.

On 7 April 2008, awards over 66,202 shares were granted with a three-year vesting period. The awards did not vest and so lapsed. On 7 April 2009, awards over 262,987 shares were granted with a three-year vesting period. On 26 November 2009, an award over 74,240 shares was granted with a three-year vesting period. On 9 April 2010, awards over 94,277 shares were granted with a three-year vesting period. On 17 May 2010, an award over 116,532 shares was granted with a three-year vesting period. On 6 April 2011, awards over 367,315 shares were granted with a three-year vesting period.

### Deferred Share Bonus Plan

Deferred share bonus options are awarded under the DSBP, under which each year up to one-half of the total bonus earned by eligible executives is deferred and invested in the Company's shares to be held by the Employee Benefits Trust. Provided the executive remains in employment, the shares normally vest after two years.

On 6 April 2011, awards over 30,921 shares were granted to 33 employees with a two-year vesting period based on an average share price at grant date of £14.14. Under the DSBP, the awards were based on the deferred amount of an employee's 2010 bonus. On 9 April 2010, awards over 23,262 shares were granted to 27 employees with a two-year

vesting period based on an average share price at grant date of £15.80. Under the DSBP, the awards were based on the deferred amount of an employee's 2009 bonus. On 7 April 2009, awards over 63,740 shares were granted to 20 employees based on an average share price at grant date of £4.22 with a two-year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2008 bonus. On 7 April 2008, 11,403 shares were granted to 17 employees based on an average share price at grant date of £15.95 with a two year vesting period. Under the DSBP, the awards were based on the deferred amount of an employee's 2007 bonus.

At 31 December 2010, the cash value of the awards eligible for the DSBP, for which shares were granted in April 2011, was US$1.8 million.

The DSBP is also used for certain senior executives, whereby 40 per cent. of earned bonus is deferred and invested in shares, with half deferred for one year and the other half deferred for two years. On 6 April 2011, awards over 12,452 shares were granted to certain senior executives with a one-year vesting period and awards over 12,452 shares were granted to certain senior executives with a two-year vesting period. On 7 April 2010, awards over 8,237 shares were granted to certain senior executives with a one-year vesting period and awards over 8,237 shares were granted to certain senior executives with a two-year vesting period.

**Kazakhmys Executive Share Option Plan**

The Kazakhmys UK Executive Share Option Plan 2010 was approved by the Board on 3 March 2010.

- On 9 April 2010, options over 11,388 shares were granted to six employees with a three-year vesting period and at an exercise price of £15.80.
- On 6 April 2011, an option over 2,122 shares was granted to an employee with a three-year vesting period and at an exercise price of £14.14.

**Employee Share Plans**

The Kazakhmys UK Sharesave Plan 2010 and Kazakhmys International Sharesave Plan 2010 were approved by Shareholders at the 2010 Annual General Meeting. The first options were granted on 23 September 2010 as follows:

- Options over 20,629 shares were granted to 27 employees under the Kazakhmys UK Sharesave Plan 2010 with an exercise price of £9.70.
- Options over 32,641 shares were granted to 56 employees under the Kazakhmys International Sharesave Plan 2010 with an exercise price of £9.70.

To satisfy the above options awarded, the Company purchases 39,953 shares at a cost of US$1 million through an Employee Benefit Trust.

The Kazakhmys UK Share Incentive Plan 2010 and the Kazakhmys International Share Incentive Plan 2010 were approved by Shareholders at the 2010 Annual General Meeting. The first invitation under both of these plans was made in April 2011.

## HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Company recognises that the health and safety of its employees and the maintenance of high environmental performance standards are major priorities. The Company and its subsidiaries develop and operate their facilities and conduct their operations materially in accordance with applicable local laws and regulations on environmental and social issues. The Company is committed to implement the recommendations and action points in relation to the management of Environmental, Health and Safety issues set out in the IMC Report.

### Health and safety standards

The Board is committed to preventing accidents that represent a risk to people, the environment and Kazakhmys' facilities. It believes all work-related accidents are preventable and that all employees have a responsibility to achieve this goal.

The Group's objective is zero fatalities. The number of fatalities in 2010 was 26, 15 in 2009 and 32 in 2008. Of the 26 fatalities in 2010, 6 were due to rock fall and 6 were due to explosives handling. As at 30 April 2011, there have been six fatalities in 2011, two of whom were contractors. The cause of every fatal accident is investigated and reported to the HSE Committee, and reviewed by the Fatal Accident Review Panel. In Kazakhstan, a Government-appointed commission also investigates all fatal accidents.

The majority of the fatalities during the Track Record Period were in connection with the Group's mining operations and transportation activities, while additional fatalities occurred at the Group's concentrating and copper-smelting plants as well as the Ekibastuz power plant. Prior to 2004, damages were paid in respect of fatalities and other accidents. From 2005, the Civil Code requires the company to have insurance to cover the costs associated with fatalities and other accidents from 2005 onwards. This insurance cost was US$3.7 million in 2010. The Company continues to pay damages in relation to fatalities and other accidents prior to 2005 and also makes one-off payments for accidents after 2005 in addition to the insurance cover. These amounts totalled US$18.5 million in 2008, US$18.2 million in 2009 and US$18.5 million in 2010.

In an effort to reduce further accidents such as those that occurred during the Track Record Period, the Group has taken the following steps: (1) improved the safety awareness training programs for new employees, electronic engineers and other personnel regarding safe maintenance of the work equipment through in-house training programs and training by the local authorities; (2) introduced remote controlled production equipment and new technology for its operations; and (3) established an in-house and international consultant management body chaired by the CEO and developed the Occupational Health and Safety Management System.

The Group is in the process of implementing activity-based risk analysis and work procedures, which are required as part of the Health and Safety Laws enacted in Kazakhstan in 2009. Within the Group, 17 companies have achieved accreditation according to integrated quality, environmental, health and safety management systems ISO 9001, ISO 14001 and OHSAS 18001 and four companies are preparing for certification.

In addition, Kazakhmys Copper identified five priority safety projects critical for improving performance. They are:

- to introduce new training processes for all employees and open new training centres in the East Region and Karaganda.

- to review current practices to ensure they are in line with industry standards.
- to introduce additional training and equipment to ensure these activities are safe.
- to introduce new personal protective equipment standards and replace all uniforms and personal protective equipment with higher-specification equipment.
- to carry out a major project to measure dust levels at all relevant sites, identify priority areas for action and introduce further reduction measures.

The Group has complied with applicable health and safety regulations in all material respects. See "Laws and Regulations Relating to the Industry—Health and Safety".

To achieve the objective of zero fatalities requires the Group to make significant strides to improve its approach to health and safety management and to develop a safety focused culture. Group and local health and safety programmes, safety audits and formal accident investigations, together with continued investment in training and safety equipment systems form the key elements of the drive to continually raise standards and develop a safety culture throughout the Group. Fatal Risk Protocols have been adopted covering working at height, conveyor transport and underground mobile equipment.

As part of health and safety management, work-related accident statistics are recorded. These are based on Kazakhstan regulatory reporting requirements, which are not in line with international safety measurement definitions. The Group continues to focus on achieving an internationally recognised industry measure as a basis for comparison with its peers and to report upon in external reports. Incidents of occupational diseases affecting employees are measured across the Group, including dust-induced lung disease and vibration sickness.

The Group is required to comply with a range of health and safety laws and regulations, and it recognises that the health and safety of its employees is a major priority. The Group's health and safety standards are reviewed on an ongoing basis and safety training is an ongoing process. In accordance with Kazakh law, the Group has developed a health and safety policy applicable to Kazakhmys' operations and categories of activity.

Each complex or regional operation of Kazakhmys has a health and safety department that is independent of operational management and that reports to the director of the complex or operation. Each complex and regional operation has a health and safety programme that is updated yearly. Additionally, each operating unit has a safety representative that monitors compliance with the health and safety programme. Related internal reports and any Government inspection reports are reviewed on an ongoing basis. In the event of an accident, Kazakhmys' safety representatives, together with relevant governmental representatives, conduct an investigation and report back to the operational unit and relevant management personnel. Any additional preventative or safety compliance measures that are recommended in the accident report are reviewed, and implementation of actioned recommendations is monitored by the relevant health and safety department.

The Group carried out 3,066 site safety inspections in 2010 and stopped operations on 785 occasions as a result of safety violations found. The Group also operates a 24 hour anonymous phone line for employees to report concerns about health and safety compliance.

In 2010, the Group carried out disciplinary proceedings with 1,087 employees and dismissed another 107 following violations found during inspections or reported through the phone line.

Improving safety standards requires investment and 9 per cent. of all capital expenditure in Kazakhmys Copper in 2010 had a safety element, which includes improved personal protective equipment, fire protection and ventilation.

In February 2011, the Company recruited a new Chief Operating Officer responsible for health and safety implementation and in 2010, for the first time, a Group Human Resources Director. These positions report directly to the Chief Executive, placing additional emphasis on the strategic importance of these areas. The two new directors will work closely together to further strengthen our HSE culture, training and communications.

The Group has engaged external consultants to develop a health and safety management system intended to ensure that its operations in Kazakhstan conform to international standards. In addition, Kazakhmys is developing accident and risk analysis programmes and introducing new technology and equipment with a view to further improving employee safety and, consequently, reducing the number of accidents.

**Environmental standards**

In common with other natural resources and mineral processing companies, the Group's operations generate hazardous and non-hazardous waste, effluent and emissions into the atmosphere, water and soil. Environmental challenges associated with open pit mining include pit closure plans and the water potentially impounded in the final pit. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Group seeks to minimise the impact of its activities on the environment. In addition, a number of environmental laws in Kazakhstan apply to the Group's operations. These laws address such matters as protection of the natural environment, air and water quality and emissions standards and disposal of waste.

Kazakhstan has adopted environmental regulations requiring industrial companies to undertake programmes to reduce, control or eliminate various types of pollution. These regulations are primarily enforced through a mechanism of payment obligations on levels of emissions and waste storage. Permits are issued annually to Kazakhmys' operational units, specifying the permissible levels of emissions and waste storage. Kazakhmys pays an annual fee for emissions and storage within these permitted levels. Emissions and storage above permitted levels give rise to additional payment obligations.

The Group actively monitors specific air emission levels, ambient air quality, quality of nearby surface water, level of contaminates in soil and the creation of solid waste. Renewal of environmental permits is subject to the submission of an annual report on pollution levels to the Kazakh environmental authorities, compliance with the permits' provisions and the payment of any additional payment obligations. The Kazakh environmental authorities also conduct tests to validate the Group's results.

Kazakh legislation also requires the rehabilitation of site operations that have been closed down. As a condition of its subsoil use contracts and licences, the Group must provide

an annual amount towards the cost of closure and other rehabilitation for each mine or group of mines.

Much of the Group's plant and equipment was put into operation when lower environmental standards were in effect. The Group intends to work with an external consultant to design an environmental action plan as part of the objective of bringing its Kazakh operations into conformity with international standards.

The Group's operations have been in compliance with remediation, rehabilitation and other obligations under relevant environmental laws, in all material respects, during the Track Record Period. The Company has obtained all material environmental permits required to operate its business as described herein including all material permits related to emissions, special water use and waste disposal and retention. While the Company has been notified of certain breaches of the applicable environmental legislation, such breaches have not had a material adverse effect on the Group or its operations. The cost for environmental compliance is not a cost that the Group actively tracks in its management information systems or management reporting. However, the Group spent a total of US$36 million on environmental improvements in 2010, US$27 million of which was in the Copper division and the balance of US$9 million at Ekibastuz. The Group's compliance costs are dependent largely upon Kazakh environmental regulation, including new emission standards that come into effect in 2013, and changes in regulation could significantly affect the Group's compliance costs in the future.

See page "Other Information—Litigation" in Appendix VI—Statutory and General Information regarding material litigation related to a historical environmental pollution tax rate.

### HSE Committee

The Company has established an HSE Committee of its Board of Directors. The HSE Committee is chaired by Philip Aiken with Clinton Dines also a member. The Group engages a health and safety specialist and an environmental specialist with appropriate technical expertise to advise this Committee. The HSE Committee meets not less than twice a year, typically with the meetings taking place in Kazakhstan and including site visits and meetings with management. The principal tasks of the Committee are to evaluate the effectiveness of the Group's policies and systems for identifying and managing HSE risks within the Group, to recommend to the Board the Group's policies on HSE issues as they affect the Group's operations and to ensure that an effective system of HSE standards, procedures and practices is in place at each of the Group's operational sites. The Committee is also responsible for reviewing management's investigation of incidents or accidents. The ultimate responsibility for establishing HSE policy will remain with the Board.

## OPERATIONAL HAZARDS AND INSURANCE

The Group's operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents at a mine, processing plant or related facility. These risks and hazards could result in damage to production facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

Kazakh law requires mining companies to insure against certain limited risks. The Group maintains mandatory insurance policies that cover employer's liability for death or injury to workers, and liability insurance for operators of its vehicles. Kazakhmys also maintains a combined property damage and business interruption catastrophic insurance programme to mitigate the risk of a catastrophe occurring at its significant metal processing and electricity generation facilities. The Group's insurance does not cover other potential risks associated with its operations. In particular, apart from Kazakhmys Petroleum, the Group does not carry insurance for certain types of environmental hazards, such as pollution, or other hazards as a result of the disposal of waste products.

The Group's management periodically evaluates the procurement of additional insurance cover. The Group has funds on deposit and credit facilities to cover potential insurance contingencies. Given the size of its operations and the extent of its facilities and equipment, there can be no assurance that these fund and credit facilities would be available or adequate should one or more events for which the Group is not insured occur.

The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the Group's financial condition or results of operations. Moreover, no assurance can be given that the Group will be able to maintain existing levels of insurance in the future at rates it considers reasonable. See "Risk Factors—Risks relating to the Group's operations—The Group does not insure against certain risks, and its insurance coverage may be insufficient to cover losses".

## LITIGATION

Other than as set out in "Appendix VI—B. Litigation", no member of the Group is involved in any governmental, legal, administrative or arbitration proceedings which may have or have had during the 12 months prior to the date of this Listing Document a significant effect on the financial position or profitability of the Group, nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against any member of the Group.

## PROPERTIES

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirement under Rule 5.01 of the Hong Kong Listing Rules that valuations of and information on all the Group's interests in land or buildings are required to be included in this Listing Document. For more details, see the section in this Listing Document headed "Waivers". As at 31 December 2010, the aggregate carrying value of the land and buildings owned by the Group amounted to approximately 6 per cent. of the Group's consolidated total assets. The Group is not aware of any material defect in its property titles and has not had any material challenge to its property titles during the Track Record Period. The Directors confirm that the Group's property interests, individually and collectively, are not, in themselves, crucial and material to its operation.

As at the date of this Listing Document, the Group had a total of 15,500 square feet of office space in London and 85 square metres of office space in Amsterdam rented under leases from 25 March 2006 to 24 March 2021 and 1 January 2008 to 31 December 2012, respectively. The Group has various properties in Kazakhstan, such as schools, hospitals and other facilities which are primarily for use by employees, retirees, their families and other

members of local communities. In general, these properties are not run for profit as a primary objective.

## BUSINESS INTERRUPTIONS

The development of the Bozymchak gold-copper deposit located in Kyrgyzstan was impacted by social unrest, which delayed the commencement of stripping works and the delivery of equipment to the site. The processing plant was built in China and delivered to the site in 2010, and although construction work on infrastructure was delayed, resulting in first concentrate sales being pushed back from the initial fourth quarter 2010 target, the situation at the mine site is currently stable. The Group expects operations to commence and first ore produced at the end of 2011 with the first concentrate being produced in 2012.

## SOCIAL AND COMMUNITY PROGRAMMES

The Group has an obligation under its subsoil use contracts and licences to invest in local infrastructure and to train the local workforce. In 2010, Kazakhmys spent over US$200 million on social responsibility costs and investment activities, which was primarily on major social projects in Kazakhstan as well as on infrastructure investments, support for local groups, provision for disadvantaged individuals and support for local government services. 89 per cent. of this was voluntary spending, while 11 per cent. was required by licence agreements. The costs for these obligations may increase or become more burdensome in the future and may have a negative impact on the Group's profitability.

The Group owns and maintains a number of recreational, educational, recuperational, cultural and medical facilities in various parts of Kazakhstan, which are partly a requirement of the subsoil use licences. Maintaining the health and welfare of its employees is an important objective of the Group's management.

In Zhezkazgan and Balkhash, Kazakhmys operates a number of trust management agreements with state and local authorities. Kazakhmys maintains the heating distribution systems for the local communities. Kazakhmys also performs much of the road maintenance function in both towns. The Group operates, but does not own, the airport at Zhezkazgan. Of the nine aircraft which Kazakhmys owns, three are used to provide a limited regular commercial service between Almaty and Zhezkazgan.

In support of the local communities where it operates, Kazakhmys owns and operates a number of hotels in various regions in which it conducts its operations.