The following discussion and analysis of the Group's business, financial condition and results of operations is based on and should be read in conjunction with the Group's consolidated historical financial information as at and for each of the years ended 31 December 2008, 2009 and 2010, including the notes thereto, as set forth in "Appendix I—Accountants Report" and other financial information appearing elsewhere in this Listing Document. The Group's consolidated historical financial information have been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

This discussion contains forward-looking statements that involve risks and uncertainties. The Group caution you that its business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included in the section headed "Risk Factors" in this Listing Document. The Group's future results could differ materially from those projected in the forward-looking statements.

OVERVIEW

The Kazakhmys Group is a vertically integrated copper producer, operating in Kazakhstan and the surrounding region. The Group's principal business is the mining, processing, smelting, refining and sale of copper and copper products, including copper cathode and copper rod. The Group also processes or refines and sells zinc, gold and silver. Kazakhmys mines all the ore it processes, produces substantially all the copper concentrate it processes and generates sufficient electricity to meet its own requirements. It operates fifteen underground and two open pit copper mines and two copper smelting and refining complexes in various parts of Kazakhstan.

Kazakhmys' shares were listed on the London Stock Exchange (Premium Segment) on 12 October 2005. At the time of the listing, the Group consisted of only Kazakhmys Copper and MKM, its German copper processing operations. Since that time, the Group has made several acquisitions and disposals, some of which have impacted the results of operations of the Group during the period under review. In March 2007, the Group acquired Kazakhmys Petroleum from Dostan-Temir and in May of that year, acquired Eurasia Gold Inc., which was renamed Kazakhmys Gold, through a tender offer. The purchase of an 18.8 per cent. interest in ENRC in October 2007 gave Kazakhmys an interest in chrome, iron ore, alumina, coal and power assets in Kazakhstan. Kazakhmys increased its stake in ENRC to 26 per cent. through a share swap with the Government and further purchases of ENRC shares in July, August and October 2008 through subsequent market purchases of ENRC shares, after which the Group began to equity account for its investment (see "Factors Affecting Results of Operations—Performance of ENRC" below). The Group purchased the Ekibastuz power station in May 2008 from AES Corporation. The Ekibastuz power station was a strategic asset purchase, as it is the largest source of thermal power in Kazakhstan, intended by the Company to diversify the Group 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. The strategic partnership was completed in February 2010, with Kazakhmys selling 50 per cent. of Ekibastuz to Samruk-Kazyna.

Basis of Preparation

The Group currently operates as five business segments: Kazakhmys Copper, Kazakhmys Gold, Kazakhmys Power, Kazakhmys Petroleum and MKM.

The Board resolved to dispose of MKM in November 2009. MKM was classified as an asset held for sale and its results are included as discontinued operations at 31 December 2009, which required MKM to be reclassified, in accordance with relevant accounting standards, in the 2008 consolidated historical financial information as a discontinued operation for the year ended 31 December 2008. MKM continued to be treated as a discontinued operation for the year ended 31 December 2010.

The Group agreed to dispose of a 50 per cent. stake in the Ekibastuz power station to Samruk-Kazyna in 2009, and Kazakhmys Power (being the business division principally comprising the power station) was classified as an asset held for sale in the year ended 31 December 2009 and included within discontinued operations for the years ended 31 December 2009 and 31 December 2008. Under the applicable accounting standards, 100 per cent. of the Kazakhmys Power business has been presented and disclosed as a discontinued operation from 1 January 2008 to 26 February 2010. A 50 per cent. stake in the Ekibastuz power station was sold to Samruk-Kazyna on 26 February 2010, which resulted in the treatment of the retained 50 per cent. as a joint venture and classification as a continuing operation from 27 February 2010. The other asset within Kazakhmys Power, the Maikuben West coal mine, was treated as a discontinued operation for the entire year ended 31 December 2010 and held for sale as at 31 December 2010. The sale of Maikuben West completed on 17 May 2011 and the Group has not retained any interest.

The Group reports separately the results of operations and financial position of its continuing operations from those of its discontinued operations. This operating and financial review is therefore categorised in the same manner, with continuing operations being discussed separately from discontinued operations for the full period under review. Kazakhmys Copper, Kazakhmys Gold, Kazakhmys Power (a joint venture) and Kazakhmys Petroleum represent the continuing operations and strategic focus of the Group. For additional information on discontinued operations, please refer to "Appendix I—Accountants' Report".

During the period under review, discontinued operations comprise MKM (for the entire period under review), the Ekibastuz GRES-1 coal-fired power station (for the period from 1 January 2008 to 26 February 2010) and the Maikuben West coal mine (for the period from 1 January 2008 to 31 December 2010). In the consolidated balance sheets as at 31 December 2010 and 2009, the assets and liabilities of MKM and the Maikuben West coal mine (Kazakhmys Power) are presented as single line items within current assets and current liabilities and are classified as held for sale in the consolidated balance sheet. Also in accordance with applicable accounting requirements, the consolidated balance sheet as at 31 December 2008 has not been restated to present MKM and Maikuben West as held for sale. In the consolidated balance sheet as at 31 December 2009, the Ekibastuz power station

(Kazakhmys Power) is also presented as held for sale. Following the completion of the sale of 50 per cent. of Ekibastuz power station to Samruk-Kazyna on 26 February 2010, the retained 50 per cent. interest in Ekibastuz is not considered held for sale in the consolidated balance sheet as at 31 December 2010.

Kazakhmys Petroleum is in the exploration and evaluation phase of development and did not generate revenue in 2008, 2009 or 2010. The administration expenses of Kazakhmys Petroleum are included in the consolidated income statements, with all exploration and evaluation expenditure being capitalised in the consolidated balance sheet.

Unless otherwise indicated, financial information in this operating and financial review has been prepared in accordance with IFRS and in U.S. Dollars. The underlying financial information stated in Tenge and Euro has been translated into U.S. Dollars on the basis set out in "Exchange Rates" below.

FACTORS AFFECTING THE RESULTS OF OPERATIONS

Key factors affecting the Group's results of operations are discussed below.

Prices and Tariffs

The prices of the mineral commodities that the Group produces have a material impact on the Group's results of operations. The prices of copper, zinc, gold and silver are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of commodities are unable to influence market commodity prices directly; however, events such as changes in production capacity, temporary price reductions or actions by participants in the market may have an effect on market prices. Additionally, the prices realised by producers on sales of their products may be affected by contractual arrangements, production levels, product quality and hedging strategies. Price variations and market cycles have historically influenced the results of operations of the Group and are expected to continue to do so. The Group's average realised copper sales price increased by 50 per cent. for the year ended 31 December 2010 as compared to the year ended 31 December 2009 to US$7,523 per tonne, after a decline of 25 per cent. from US$6,714 for the year ended 31 December 2008 to US$5,024 for the year ended 31 December 2009.

The Group seeks to conclude annual contracts by the end of the immediately preceding fourth quarter for the sale of at least a substantial percentage of Kazakhmys' expected copper cathode production for the following year. In line with industry practice, the contracts do not fix the sale price; rather, goods are priced by reference to the LME-quoted price for the relevant monthly delivery period. The annual contracts fix the premium or discount payable, which enables the Group to avoid fluctuations in the premium or discount applicable to sales in the spot market. Gold and silver are priced by reference to the LBMA price at the date of delivery plus an agreed premium or discount. Zinc in concentrate pricing is based on the LME price at the date of delivery adjusted for zinc content and the respective treatment charges.

Kazakhmys does not generally hedge its exposure to the risk of fluctuations in the LME-quoted price of copper or the price of other mineral commodities. In 2009, however, Kazakhmys hedged against copper price risk to attempt to manage any potential downside. The depressed price of copper in 2008 resulted in a US$143 million gain on the Group's hedging contracts. The subsequent rise in the price of copper during 2009 resulted in a loss of US$129 million. Kazakhmys did not continue hedging activities in 2010. MKM uses short-term commodity futures to minimise its exposure to changes in the price of copper. See "—Disclosures about market risk—Commodity price risk".

The Group does not generally alter its production levels or the ore grade it produces in response to short-term fluctuations in commodity prices.

Kazakhmys' results of operations is also influenced by the electricity tariffs it is able to charge to third-party customers through its joint venture, Ekibastuz GRES-1 LLP. In April 2009, to encourage investment in power generation plants, the Government introduced a framework to raise tariff ceilings for domestic electricity sales for the years 2009 to 2015, which are reviewed by the Ministry of Industry and New Technologies on an annual basis. The ability to charge tariffs at these ceilings is subject to the owner of the plant meeting capital investment commitments. The tariff ceilings for 2009, 2010 and 2011 were set at 3.60 KZT/kWh, 4.68 KZT/kWh and 5.60 KZT/kWh, respectively. The Government's framework provides the following indicative tariffs for the periods 2012 to 2015: 6.50 KZT/kWh, 7.30 KZT/kWh, 8.00 KZT/kWh and 8.80 KZT/kWh, respectively. As a result of the raised ceiling, the Ekibastuz GRES-1 LLP average realised tariffs on domestic sales increased by 27 per cent. from 2.59 KZT/kWh in 2008 (from the time of acquisition) to 3.30 KZT/kWh in 2009. The further increases in 2010 have resulted in an average realised tariff on domestic sales of 4.56 KZT/kWh, a 38.2 per cent. increase from 2009. The Group also exports electricity to Russia, at market prices that are influenced by numerous factors beyond the Group's control, including international economic and political conditions, levels of supply and demand, and the availability and cost of substitutes.

The following table sets out the average annual prices in U.S. Dollars for copper, silver, gold and zinc for the years ended 31 December 2008, 2009 and 2010, as well as the electricity tariff ceiling applicable to Ekibastuz GRES-1 for sales in Kazakhstan, for the years ended 31 December 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
Copper(1) (US$/tonne)	6,958.98	5,177.82	7,543.04
Silver(2) (US$/ounce)	15.06	14.66	20.15
Gold(3) (US$/ounce)	870.94	972.79	1,225.29
Zinc(4) (US$/tonne)	1,880.23	1,662.04	2,158.53
Power(5) (KZT/kWh)	—	3.60	4.68

(1) LME Copper Spot price (LMCADY).
(2) Handy & Harman Silver Bullion spot price (HHARSILB).
(3) Gold London Afternoon Daily price (MBGDGD02).
(4) LME Zinc spot price (LMZSDY).
(5) Kazakhstan tariff ceiling for Group 1 power producing entities for the years ended 31 December 2009 and 2010. No tariff ceiling applied for the year ended 31 December 2008.

The following table sets out the Group's average realised prices in U.S. Dollars for copper, silver, gold and zinc, as well as the Group's average realised electricity tariff for sales in Kazakhstan, for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
Copper (US$/tonne)	6,714	5,024	7,523
Silver (US$/ounce)	14.66	14.60	20.02
Gold(1) (US$/ounce)	878	961	1,219
Gold(2) (US$/ounce)	878	982	1,275
Zinc(3) (US$/tonne)	1,787	1,112	1,133
Power(4) (KZT/kWh)	2.59	3.30	4.56

(1) Kazakhmys Copper's average realised gold price.
(2) Kazakhmys Gold's average realised gold price.
(3) Kazakhmys primarily sells zinc concentrate based on the LME zinc metal spot price less processing charges.
(4) Kazakhmys Power's average electricity tariff price for domestic sales. 2008 comparatives are for the period from acquisition of Ekibastuz GRES-1 on 29 May 2008.

For a discussion of recent market conditions for the copper and zinc market, see "Industry Overview".

Production and ore grade

The Group's production levels of copper, zinc and precious metals and consequently results of operations are materially impacted by its ability to extract ore in sufficient volume and by the metal content of the ore.

The Group's capital expenditures include maintenance and equipment purchases, which the Group refers to as sustaining capital expenditures, as well as expansionary expenditures in connection with the Group's projects to maintain and grow production levels. In 2010, the Group increased its capital expenditure to US$666 million, which included expenditures on concentrators, smelters and power stations and feasibility studies in connection with the Bozshakol project. In 2009, the Group reduced capital expenditures as compared to 2008 from US$694 million in 2008 to US$428 million in 2009 in response to decreased commodity pricing. For additional information on the Group's capital expenditures, see "—Consolidated Income Statement—Capital Expenditures".

Ore Extraction and Metal Content

The Group aims to produce a consistent average grade of ore in order to help maintain targeted production costs, while retaining the flexibility to produce ore at different grade levels when it believes it is advantageous to do so. As the Group's mines become depleted, or when the Group suspends a mine, it generally must either increase production at its other mines, expand its current mines or develop new mines to maintain a consistent level of production. Ore production declined over the period under review, primarily reflecting the reduction in the number of operating mines in the second half of 2008 due to prevailing economic conditions at that time. In 2010, the North mine in Zhezkazgan was closed for extensive stripping works for most of the year, but output was maintained with increased production at a number of other mines. Ore mined at Kazakhmys Gold has declined approximately 30 per cent. over the Track Record Period as Kazakhmys Gold's operating mines, Mizek Oxide and Central Mukur, neared the end of their operating lives. The Mizek Oxide mine ceased operations in November 2010. The following table shows ore mined by region for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	Ore mined (kt)		
Zhezkazgan Complex	24,124	23,779	23,309
Balkhash Complex	2,998	2,276	2,361
East Region	4,880	4,458	4,610
Karaganda Region	3,673	1,896	2,655
Total Kazakhmys Copper	**35,675**	**32,409**	**32,935**
Total Kazakhmys Gold	**2,014**	**1,564**	**1,401**

Although the Group's mining techniques generally allow it to achieve production of a consistent average ore grade, as mines continue to mature, the copper grade produced typically declines. The decline in the average copper grade over the period under review was due to the extraction from lower grade sections of the Orlovsky and Nikolayevsky mines and higher output from the West Nurkazgan mine, combined with the suspension of the higher-grade Akbastau mine pending completion of the Kosmurun—Akbastau concentrator. The suspension of the Akbastau mine, which had a zinc grade of only 0.63 per cent., conversely also led to an increase in the Group's average zinc grade over the period. The following table shows the Group's average ore grade 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
	Copper (per cent.)			Zinc (per cent.)			Gold (g/t)			Silver (g/t)		
Zhezkazgan Complex	0.84	0.87	0.82	—	—	—	—	—	—	13.63	15.49	12.45
Balkhash Complex	1.03	1.32	1.24	—	—	—	0.39	0.34	0.29	3.60	4.45	4.62
East Region	2.82	2.89	2.48	4.24	4.15	4.76	0.81	0.78	0.87	66.22	62.30	73.21
Karaganda Region	2.13	0.91	0.97	1.31	4.27	2.81	1.16	0.75	0.88	24.02	6.45	8.31
Total Kazakhmys Copper	**1.26**	**1.18**	**1.09**	**3.10**	**4.15**	**4.58**	**0.85**	**0.66**	**0.73**	**21.05**	**20.62**	**20.06**
Total Kazakhmys Gold							**1.50**	**1.39**	**1.25**			

Inventory and Processing

The Group's production levels are also affected by the available inventory at the beginning of the year and the recovery rates at the Group's concentrators. Copper in concentrate production generally declined over the period as processing of stockpiled materials and increased concentrator recovery rates only partially offset the decline in volume and grade of ore mined. The following table shows the Group'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**
Purchased concentrate	105	8	10	27.5	25.5	30.6
Total Kazakhmys Copper (own and purchased concentrate)	**1,728**	**1,608**	**1,520**	**23.1**	**22.4**	**22.2**

The processing of stockpiled materials and an improved zinc recovery rate at the concentrators was more than sufficient to offset a decrease in zinc metal in ore output over the period. The production of precious metals over the period fluctuated as a result of the suspension of the Akbastau mine and the closing of the Abyz mine for stripping works during 2009, as well as lower ore grades, partially offset by the processing of previously stockpiled materials and, for gold, an improved recovery rate at the Karagaily concentrator. The following table shows the Group'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)(1)			Gold (g/t)(1)		
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(2)	43.8(2)	44.1(2)	172.4(2)	187.8(2)	224.6(2)	1.9(2)	1.8(2)	2.0(2)
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**
Total Kazakhmys Gold										**1.50**	**1.39**	**1.25**

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

Copper cathode equivalent production from own concentrate declined over the period, reflecting the lower concentrate production. The Group produced 343 kt, 320 kt and 303 kt copper cathode equivalent for the years ended 31 December 2008, 2009 and 2010, respectively.

Production costs and efficiency

The Group, in line with its competitors, is unable to influence market commodity prices directly, and its competitiveness and long-term profitability are significantly dependent upon its ability to control costs and maintain efficient operations. Over the three-year period from 2008 to 2010, the Group's overall cost of sales has fluctuated in line with the production levels which drive raw material costs, utilities and to some extent the variable overheads along with the inflationary pressures experienced in Kazakhstan and in the mining industry in general. The Group considers these variable costs to be its production costs associated with mining and metal production, which can be broadly categorised into costs attributable to raw materials, employee salaries and payroll taxes, depreciation, depletion and amortisation, production overheads, MET, other taxes, utilities and change in work in progress and finished goods.

The following table presents the Group's production costs as a proportion of revenue and as a proportion of cost of sales for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December			Year ended 31 December		
	2008	2009	2010	2008	2009	2010
	Per cent. of revenue			Per cent. of cost of sales		
Raw materials	22.56	13.77	12.45	45.62	28.93	28.40
Employee salaries and payroll taxes	10.07	10.52	8.25	20.37	22.12	18.82
Depreciation, depletion and amortisation	7.78	7.74	6.33	15.74	16.26	14.45
Production overheads	7.39	6.82	7.72	14.94	14.34	17.62
Mineral extraction tax(1)	—	6.82	7.29	—	14.34	16.63
Other taxes	0.95	1.71	1.98	1.91	3.58	4.51
Utilities	1.04	1.37	1.17	2.10	2.88	2.68
Change in work in progress and finished goods	(0.34)	(1.16)	(1.36)	(0.68)	(2.45)	(3.10)
Total continuing operations	**49.45**	**47.59**	**43.84**	**100.00**	**100.00**	**100.00**

(1) MET is considered a cost of sale and is discussed under "—Taxation" below.

During the period under review, the Group has been able to control its production costs through various initiatives. The power plants at the Karaganda, Zhezkazgan and Balkhash complexes provide captive power to all Kazakhmys Copper's major producing operations, utilising coal from the Group's Borly coal mines. Power is supplied to the sites or into the national grid on a credit system, enabling Kazakhmys Copper to use its own power without purchasing electricity at the commercial rate and only bearing the cost of distribution from Karaganda to the Zhezkazgan and Balkhash complexes. Excess power is fed into the national grid and sold to third parties.

Kazakhmys Copper also benefits from lower-cost labour (compared to western world operations). Salaries and wages are reflective of the size of the Group's workforce and are impacted by inflationary and statutory wage increases principally in Kazakhstan and, to a lesser extent, Germany and the United Kingdom.

In 2009 and 2010, Kazakhmys Copper focused on reducing production costs and improving efficiencies by implementing a number of cost reduction measures. These measures included the suspension of high cost mines at the end of 2008, reducing ore output in 2009 from 2008, which lowered utilities, raw materials and transportation costs. The suspension of the zinc smelter in the Balkhash Region in March 2009 removed the cost of processing zinc concentrate further into ingots, as all zinc in concentrate was sold externally. The economic downturn also gave Kazakhmys Copper the opportunity to renegotiate more favourable terms with suppliers and reduce the input costs for raw materials.

During 2010, the Group ran pilot optimisation projects in several activities, including equipment procurement and maintenance, processing efficiencies and raising recovery rates. For example, it purchased equipment to maintain the roads at mining operations along with drilling and haulage vehicles to further improve the availability of equipment at the mines, and, in January 2010, commenced operations at a tyre recycling facility.

The Group also commenced an internal restructuring exercise aimed at improving efficiency and streamlining decision making. This restructuring has coincided with several key senior management appointments, including the recent recruitment of a new Chief Operating Officer, a Head of Projects and a Head of Human Resources. Historically the business has been managed on a regional basis. Part of the restructuring programme is to reorganise management by function.

In addition, Kazakhmys Copper phased out major purchases of copper concentrate and blister copper in 2009, as one of the Zhezkazgan smelter furnaces was closed for routine maintenance for a period of approximately two months. Only minimal purchases of copper concentrate were made in 2010 due to the reduction in the smelter capacity levels and as the processing of purchased concentrate was no longer beneficial. The cost of purchased concentrate in 2008 was US$250 million compared to approximately US$25 million in 2010.

Taxation

The Government introduced a new Tax Code which came into force on 1 January 2009. The new tax legislation reduced corporate income tax rates from 30 per cent. in 2008 to 20 per cent. in 2009 and thereafter. The introduction of the Mineral Extraction Tax (MET), which is similar in nature to the royalties that were levied prior to 1 January 2009, off-set the reduction in corporate income tax rates. The MET is a revenue-related tax based on the volume and metal content of extracted ore and global commodity prices and is included within cost of sales. Over the course of 2010, mine content and extracted ore at Kazakhmys Copper have declined slightly. However, given the significant increases in commodity prices, particularly for copper, the Group has recognised an expense of US$236 million in relation to MET within cost of sales, compared to US$164 million in 2009. MET represented, as a proportion of revenue from continuing operations, nil, 6.8 per cent. and 7.3 per cent. for the years ended 31 December 2008, 2009 and 2010, respectively.

The Group uses an all-in effective tax rate, which it believes is a more representative tax rate on the recurring profits of the Group's managed businesses. The all-in effective tax rate is calculated as the income tax expense plus the MET and removing the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for the MET, hedging gains/losses, special items and other non-recurring items and the share of profits from the associate and joint venture.

Exchange rates

The Group principally produces commodities, which are typically priced by reference to U.S. Dollars, and the Group's revenue is generally generated in U.S. Dollars. A substantial portion of the Group's costs are incurred in Tenge. MKM's revenues are generated primarily in Euro and U.S. Dollars and its costs are primarily incurred in Euro. Kazakhmys Power's revenues and expenses are predominantly incurred in Tenge. Accordingly, the Group may be materially exposed to exchange rate fluctuations between the U.S. Dollar and the Tenge and, to a lesser extent, the Euro.

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency of the Company and of most of its subsidiaries is the U.S. Dollar as the majority of its operating and financing activities are conducted in U.S. Dollars. The functional currency of Kazakhmys Copper, Kazakhmys Power and Kazakhmys Gold is the Tenge, and it is the Euro for MKM. On consolidation, income statements of subsidiaries are translated into the presentation currency for the Group, which is the U.S. Dollar, at average rates of exchange for the relevant periods. Consequently, where the revenues are denominated in U.S. Dollars and a significant proportion of costs are Tenge denominated, for example at Kazakhmys Copper and Kazakhmys Gold, operating margins improve if the Tenge depreciates against the U.S. Dollar.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arise due to the retranslation of U.S. Dollar denominated monetary assets and liabilities within the Group's Kazakhstan subsidiaries that have a Tenge functional currency. In 2009, these differences resulted in a US$336 million gain for the Group.

In 2009, the National Bank of Kazakhstan announced that it would support the Tenge at a lower level than it had previously, which resulted in the devaluation of the Tenge by approximately 25 per cent. In 2010, the Tenge remained relatively stable against the U.S. Dollar. The tables below set forth the average and period end exchange rates used for the translation of Tenge amounts into U.S. Dollars for the purpose of inclusion in the financial information as at 31 December 2008, 2009 and 2010.

	Average Exchange Rates				
Currency	2008	change from 2008 (per cent.)	2009	change from 2009 (per cent.)	2010
Tenge	120.30	22.6	147.50	0.1	147.35
Euro	0.68	5.9	0.72	4.2	0.75
UK Sterling	0.54	18.5	0.64	1.6	0.65

	Exchange Rates at Period end				
Currency	2008	change from 2008 (per cent.)	2009	change from 2009 (per cent.)	2010
Tenge	120.77	22.8	148.36	0.6	147.40
Euro	0.71	(1.4)	0.70	7.1	0.75
UK Sterling	0.69	(8.6)	0.63	3.2	0.65

For additional information regarding the impact of foreign exchange rates on the Group's results, see "—Disclosures about market risk—Foreign currency exchange rate risk".

Social Responsibility Obligations

As a condition of certain of its subsoil use licences and contracts, the Group is obliged to maintain social programmes for the benefit of local communities. The Group also recognises its responsibilities as a major operator in Kazakhstan through its social spend. As a consequence of the global decline in commodity prices, there was a corresponding reduction in the Group's voluntary social spending contracts in 2009 as compared to 2008. In 2010, social spending was expanded compared to 2009 and included US$130 million related to the Group's commitment to major social projects in Kazakhstan. This US$130 million represents the full cost of the projects which are expected to take up to two years to complete, and is considered a special item due to the unique nature and quantum of the expenditure when compared to previous social development projects undertaken by the Group. In addition, the Group has contributed to a number of smaller projects in the communities in which the Group operates, contributing approximately US$76 million in 2010 to fund various medical, cultural, recuperational and rehabilitation facilities, nursery schools, community centres, athletic facilities, housing and infrastructure in the areas in which it has operations. Furthermore, the Group has an obligation under its subsoil use licences and contracts to invest in training the local workforce. These expenses are principally recorded as administrative expenses for social responsibility costs and medical and social support costs and as other expenses for sanatorium, medical and canteen costs. The Group is permitted to charge for the use of some of its social responsibility facilities; these charges are reflected in other income and partially offset the expenses incurred by the Group. These obligations constitute a significant expense for the Group and may increase or decrease in the future.

Performance of ENRC

Kazakhmys holds 26 per cent. of the issued share capital of ENRC, a diversified natural resources group with significant operations in Kazakhstan. ENRC's primary business is the production of ferro alloys, iron ore, alumina, aluminium, power generation and other materials. Kazakhmys accounts for ENRC as an associate and consequently the Group's results of operations include its percentage share of the net profit of ENRC. The performance of ENRC consequently has a significant impact on Kazakhmys' performance.

The Group's share of ENRC's results was US$255 million, US$223 million and US$522 million, representing 21.5 per cent., 28.9 per cent. and 31.5 per cent. of Group profit before finance items and taxation, for the years ended 31 December 2008, 2009 and 2010, respectively. As a mining operation, ENRC's results are largely impacted by similar market conditions and other factors as those of Kazakhmys, particularly demand from the steel, iron ore, aluminium and energy markets principally in China and Russia. See "—ENRC" for additional information.

CONSOLIDATED INCOME STATEMENT

The following describes certain principal line items in the Group's consolidated income statement for continuing operations only.

Revenues

The Group derives its revenues principally from the sale of copper products, comprising the sale of copper cathode, copper rod and, to a lesser extent, copper concentrate. In 2010, 74 per cent. of the Group's revenues came from the sale of these copper products, compared to 71 per cent. in 2009 and 80 per cent. in 2008. The Group seeks to conclude annual contracts by the end of the fourth quarter of each year for the sale of approximately 80 per cent. of its expected copper cathode production during the following year. Sales contracts are based on the LME spot rate plus a premium based on the terms of trade (including delivery costs) and the negotiations with the particular customer. Cathode production that is not subject to such annual contracts is available either to be sold on the spot market or for use in manufacturing copper rod. Rod production and sales therefore vary from year-to-year depending on the contractual requirements for cathode and customer demand for rod.

The Group also generates revenue from the sale of zinc (concentrate and metal), gold and silver. In 2010, 21 per cent. of the Group's revenues came from the sale of zinc, gold and silver products compared to 24 per cent. in 2009 and 17 per cent. in 2008. In March 2009, the Group suspended operations at the Balkhash zinc refinery following which all zinc concentrate produced was sold externally and not processed further internally due to the high cost of processing the zinc concentrate into metal.

Gold and silver are by-products of the Group's copper mining operations and the amount of gold and silver produced, and thus the majority of the quantities available for sale, is a function of the volume of ore mined and the gold and silver grade contained in the mined ore. Gold is also the primary product of the Group's gold division, which produces and sells gold doré.

In addition, the Group receives revenues from the sale of certain other by-products, including lead and rhenium, as well as from other sources, such as the sale of electricity, coal and heat and water to third parties and tolling contracts.

Cost of sales

Cost of sales is principally comprised of raw materials, salaries, depreciation of tangible assets associated with production, amortisation of subsoil contract and mineral licence costs, overheads and MET. Cost of sales also includes other non income-related taxes, utilities and changes in work-in-progress and finished goods inventories. Raw materials, which amounted to approximately 28 per cent. of the total cost of sales in 2010, compared to approximately 29 per cent. in 2009 and 46 per cent. in 2008, are one of the key variable cost items. Raw materials included such items as fuel, dynamite used in the mining of ore and chemical reagents. In 2008, and to a lesser extent in 2009, raw materials included purchased copper concentrate.

Salary and payroll tax costs amounted to 19 per cent. of the total cost of sales in 2010, compared to 22 per cent. in 2009 and 20 per cent. in 2008. Although salary and payroll tax costs are principally fixed, they declined in 2009 as a result of the transfer of some employees to a third party transport outsourcing company. Production overhead costs include ore transportation expenses, which are a significant variable contributor to the Group's cost of sales. Overhead costs amounted to 18 per cent. of the total cost of sales in 2010, compared to 14 per cent. in 2009 and 15 per cent. in 2008. Depreciation is both a fixed and a variable cost, and amortisation is a variable cost. Each item of property, plant and equipment is depreciated over its useful life, while mine development costs and subsoil-use contracts and mineral licence costs are amortised on a unit of production basis. For additional information on the Group's accounting policies, see "—Critical accounting policies."

The Group has historically purchased a limited amount of copper concentrate from third parties to maximise the throughput and efficiency of its smelting and refining operations. The Group's copper cathode production from purchased copper concentrate was 3 kilotonnes in 2010, 6 kilotonnes in 2009 and 38 kilotonnes in 2008. The grade of copper concentrate purchased by the Group can vary from period to period. Fluctuations in the quantity and price of this purchased concentrate can affect cost of sales.

Selling and distribution expenses

Transportation costs, which include rail transport and freight costs associated with product sales, are the primary component of selling and distribution expenses. Transportation costs comprised approximately half of the Group's selling and distribution expenses throughout the Track Record Period. Expenses such as packaging materials, shipping fees, salaries and customs clearance are also included as selling and distribution expenses. Copper products sold to Chinese customers are delivered at the Kazakhstan—China border, which reduces the 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 a 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 basis or CIP Frankfurt or Zurich.

Administrative expenses

Administrative expenses include salaries of engineers and management (including production facility managers) and related staff, medical and social expenses for employees, depreciation on non-production facilities and other administrative expenses, including various non-income taxes, social responsibility costs (including community and recreational infrastructure), and legal and professional fees.

Other operating income

Other operating income principally consists of revenues derived from non-core aspects of the Group's business, including facilities it maintains as part of its social responsibilities. It also includes income received on the disposal of fixed assets. In 2008, other income included a gain of US$143 million on the copper price—hedging contracts.

Other operating expenses

Other operating expenses include costs associated with the disposal of fixed assets, employee transport expenses and other non-production expenses, such as heat, electricity and certain social responsibility services provided to employees and local communities. In 2009, other expenses included a loss of US$129 million on the copper price—hedging contracts.

Impairment losses

Impairment losses represent adjustments made against the carrying value of assets, including property, plant and equipment, inventories and receivables, where the carrying value is higher than the recoverable amount.

Share of profits from joint venture

Share of profits from joint venture includes profits from Ekibastuz GRES-1 LLP, in which Kazakhmys holds a 50 per cent. interest under the joint venture with Samruk-Kazyna for the period from 27 February 2010 to 31 December 2010.

Kazakhmys Power made an EBITDA (excluding special items) contribution of US$58 million within discontinued operations, with Ekibastuz GRES-1 contributing US$36 million of that amount. The EBITDA of the Ekibastuz GRES-1 joint venture, included within continuing operations, was US$86 million, giving a combined contribution from Ekibastuz GRES-1 of US$122 million in 2010. In the prior year, Ekibastuz GRES-1 contributed EBITDA of US$120 million, US$2 million lower than in 2010 as the higher tariff ceiling and sales volumes more than offset the impact of the 50 per cent. disposal in February 2010.

Share of profits from associate

Share of profits from associate includes profits from ENRC. The Group's share of ENRC's results of operations was US$255 million, US$223 million and US$522 million, representing 21.5 per cent., 28.9 per cent. and 31.5 per cent. of Group profit before tax and finance costs, for the years ended 31 December 2008, 2009 and 2010, respectively.

Net financing income/(expenses)

Net financing income/(expenses) includes interest receivable from funds on deposit with banks, income from investments (i.e. fixed-term deposits) and interest expense on borrowings.

Foreign exchange gain/(loss)

Foreign exchange gain/(loss) includes actual foreign exchange gains and losses incurred as a result of foreign currency transactions entered into by the Group, as well as gains and losses arising on the translation of foreign currency monetary assets and liabilities.

Results of operations

The following table sets out, for the periods indicated, the Group's consolidated profit and loss data expressed in U.S. dollars and as a percentage of revenues of continuing operations for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	(US$ millions)	(per cent.)	(US$ millions)	(per cent.)	(US$ millions)	(per cent.)
Revenues	3,276	100.0	2,404	100.0	3,237	100.0
Cost of sales	(1,620)	(49.5)	(1,144)	(47.6)	(1,419)	(43.8)
Gross profit	**1,656**	**50.5**	**1,260**	**52.4**	**1,818**	**56.2**
Selling and distribution expenses	(80)	(2.4)	(52)	(2.2)	(55)	(1.7)
Administrative expenses	(407)	(12.4)	(402)	(16.7)	(658)	(20.3)
Other operating income/(expenses)	144	4.4	(131)	(5.4)	7	0.2
Impairment losses	(381)	(11.6)	(126)	(5.2)	(14)	(0.4)
Share of profits from joint venture	—	—	—	—	38(1)	1.2
Share of profits from associate	255	7.8	223	9.3	522	16.1
Profit from continuing operations before tax and finance costs	1,187	36.2	772	32.1	1,658	51.2
Net financing income/(expenses)	(43)	(1.3)	256	10.6	(68)	(2.1)
Profit before tax	**1,144**	**34.9**	**1,028**	**42.8**	**1,590**	**49.1**
Income tax expense	(324)	(9.9)	(261)	(10.9)	(202)	(6.2)
Profit for the year	**820**	**25.0**	**767**	**31.9**	**1,388**	**42.9**

(1) Represents profits from Ekibastuz GRES-1 under the joint venture with Samruk-Kazyna for the period from 27 February 2010 to 31 December 2010.

Business and geographic segments

The Group's operations are managed as five business units according to the nature of the products and the services provided: Kazakhmys Copper, Kazakhmys Gold, Kazakhmys Power, Kazakhmys Petroleum and MKM. Each of these units constitutes a business segment.

The table below sets out the Group's revenues for continuing and discontinued operations for the periods indicated, broken down by business segment and product.

	Year ended 31 December					
	2008		2009		2010	
	Revenue (US$ millions)	Per cent. of total revenue	Revenue (US$ millions)	Per cent. of total revenue	Revenue (US$ millions)	Per cent. of total revenue
Continuing Operations						
Kazakhmys Copper	3,227	62.65	2,357	64.05	3,182	65.14
Kazakhmys Gold	49	0.95	47	1.28	55	1.13
Kazakhmys Petroleum	—	—	—	—	—	—
Total Continuing Operations	**3,276**	**63.60**	**2,404**	**65.33**	**3,237**	**66.26**
Total Joint Venture	**—**	**—**	**—**	**—**	**138**	**2.82**
Discontinued Operations						
MKM	1,719	33.37	1,038	28.21	1,387	28.39
Kazakhmys Power	156	3.03	238	6.47	123(2)	2.52(2)
Total Discontinued Operations	**1,875**	**36.40**	**1,276**	**34.67**(1)	**1,510**	**30.91**
Group Total	**5,151**	**100.00**	**3,680**	**100.00**	**4,885**	**100.00**

(1) Figures do not total due to rounding.
(2) Includes revenue from Ekibastuz GRES-1 until 26 February 2010.

The Group primarily operates in three geographic areas, Kazakhstan, the UK and Germany. The table below shows segment sales, the segmental results and segment assets for the three geographic segments (including discontinued operations) for the years ended 31 December 2008, 2009 and 2010.

	For the years ended 31 December											
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
	Kazakhstan(1)			U.K.(2)			Germany(3)			Total		
	(US$ millions)											
Sales to external customers	3,432	2,642	3,498	—	—	—	1,719	1,038	1,387	**5,151**	**3,680**	**4,885**
Segmental operating results	968	587	1,251	(31)	(37)	(41)	(41)	(134)	23	**896**	**416**	**1,233**
Segment assets	5,888	4,968	5,300	6,462	11,132	11,225	384	308	343	**16,779**	**16,408**	**16,868**

(1) Segmental results and segment assets attributable to Kazakhmys Copper, Kazakhmys Power, Kazakhmys Gold (including Kazakhmys Gold's development project in Kyrgyzstan) and Kazakhmys Petroleum.
(2) Segmental results and segment assets attributable to corporate unallocated segmental results and segment assets.
(3) Segmental results and segment assets attributable to MKM.

The Group primarily sells its products in Europe and China. The table below shows revenues from continuing operations by destination to third parties. In 2010, approximately 41 per cent. were attributable to Europe and approximately 48 per cent. attributable to China. In 2009, approximately 47 per cent. were attributable to Europe, while approximately 42 per cent. were attributable to China. In 2008, Europe accounted for approximately 60 per cent. of such revenues, while China accounted for approximately 31 per cent.

	Year ended 31 December					
	2008		2009		2010	
	(US$ millions)	(per cent.)	(US$ millions)	(per cent.)	(US$ millions)	(per cent.)
Europe	1,971	60.16	1,138	47.34	1,330	41.09
China	1,006	30.71	1,005	41.81	1,567	48.41
Kazakhstan	217	6.62	254	10.57	329	10.16
Other	82	2.50	7	0.29	11	0.34
Total revenues from continuing operations(1)	**3,276**	**100.00**	**2,404**	**100.00**	**3,237**	**100.00**

(1) Percentages may not total 100 per cent. due to rounding.

Comparison of the years ended 31 December 2008, 2009 and 2010

The following table shows the Group's consolidated income statement for the years 2008, 2009 and 2010. The analysis of the principal income statement line items for the Group's continuing operations only is provided on pages 327 to 339. The discontinued operations pre analysed separately over the years 2008, 2009 and 2010 on pages 339 to 345.

	Years ended 31 December		
	2008	2009	2010
	(US$ millions, except as noted)		
Income statement data:			
CONTINUING OPERATIONS			
Revenues	3,276	2,404	3,237
Cost of sales	(1,620)	(1,144)	(1,419)
Gross profit	1,656	1,260	1,818
Selling and distribution expenses	(80)	(52)	(55)
Administrative expenses	(407)	(402)	(658)
Other operating income	192	28	44
Other operating expenses	(48)	(159)	(37)
Impairment losses	(381)	(126)	(14)
Share of profits from joint venture	—	—	38
Operating profit	932	549	1,136
Share of profits from associate	255	223	522
Profit before finance items and taxation	1,187	772	1,658
Analysed as:			
Profit before finance items and taxation before special items	1,553	860	1,783
Special items	(366)	(88)	(125)
Finance income	113	479	91
Finance costs	(156)	(223)	(159)
Profit before taxation	1,144	1,028	1,590
Income tax expense	(324)	(261)	(202)
Profit for the period from continuing operations	820	767	1,388
DISCONTINUED OPERATIONS			
Profit/(loss) for the period from discontinued operations	90	(214)	62
Profit for the period	910	553	1,450
Attributable to:			
Equity holders of the Company	909	554	1,450
Non-controlling interests	1	(1)	—

Revenues

The following table shows the breakdown of revenues for Kazakhmys' continuing operations for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December					
	2008		2009		2010	
	Revenue (US$ million)	Per cent. of revenue	Revenue (US$ million)	Per cent. of revenue	Revenue (US$ million)	Per cent. of revenue
Kazakhmys Copper						
Copper cathode	2,272	69.35	1,563	65.02	2,110	65.18
Copper concentrate	19	0.58	107	4.45	—	—
Copper rod	314	9.58	41	1.71	274	8.46
Silver	251	7.66	251	10.44	271	8.37
Gold bullion	109	3.33	127	5.28	164	5.07
Zinc metal	88	2.69	19	0.79	—	—
Zinc metal in concentrate	61	1.86	127	5.28	193	5.96
Other by-products	51	1.56	52	2.16	82	2.53
Other	62	1.89	70	2.91	88	2.72
Kazakhmys Gold						
Gold doré	49	1.50	47	1.96	55	1.70
Kazakhmys Petroleum	—	—	—	—	—	—
Total Continuing Operations	**3,276**	**100.00**	**2,404**	**100.00**	**3,237**	**100.00**

Year ended 31 December 2010 compared to 2009

The Group's revenues from continuing operations for the year ended 31 December 2010 increased by approximately 35 per cent. from US$2,404 million in 2009 to US$3,237 million in 2010. This increase was driven primarily by the rise in global copper prices despite a small decline in the volume of copper cathode sold in 2010. US$3,182 million, or 98 per cent., of the Group's revenues from continuing operations, were attributable to Kazakhmys Copper.

Kazakhmys Copper

Kazakhmys Copper generated 75 per cent. of its revenue from copper products, the sales of which grew by US$673 million compared to the prior year. Revenues from the sale of copper cathode and copper rod were US$2,384 million, or 49 per cent., of the total revenues generated by Kazakhmys. Sales volumes of copper cathode equivalent in 2010 were 317 kt, which was 7 per cent. below the volumes sold in the prior year, when sales volumes benefited from a greater reduction in finished goods. The lower level of sales was more than offset by the increase in the copper price, resulting in revenues from copper based products increasing by US$673 million to US$2,384 million. Copper cathode and copper rod realised prices increased on average by 50 per cent. as compared to average realised prices in 2009, rising from an average realised price of US$5,024 per tonne in 2009 to US$7,523 per tonne in 2010.

Sales volumes of copper products decreased in 2010 due to a decrease in metal content in ore, which was partially offset by an increase in ore output and an increase in the recovery rates at the Group's concentrators, resulting in a 6 per cent. decrease in copper metal in ore extracted in 2010 as compared to 2009.

In 2009, 17 kt of copper in concentrate from the Zhezkazgan region was sold to China, which accounted for the copper cathode equivalent production in 2010 being above the copper cathode production in 2009. The trial sales of copper concentrate which occurred in the first seven months of 2009 were not repeated in 2010.

Production of copper cathode from own concentrate in 2010 was 2 per cent. above 2009, when 22.7 kt of copper in concentrate was sold to third parties on a trial basis rather than being processed into copper cathode. In 2010, Kazakhmys Copper maintained sufficient smelting capacity at the Zhezkazgan and Balkhash complexes so sales of copper concentrate were not required.

The volume of copper rod sales increased from 8 kt in 2009 to 35 kt in 2010 as premiums on sales to China improved with stronger demand which justified a greater allocation of cathode to rod production.

The following table compares Kazakhmys Copper's copper sales volumes, average realised price and revenue for the years ended 31 December 2009 and 2010.

	Year ended 31 December	
	2009	2010
	(kt unless otherwise stated)	
Copper cathode	311	282
Copper rod	8	35
Copper concentrate	22	—
Average realised price (US$/t)	5,024	7,523
Revenue from (US$ millions)		
Copper cathodes	1,563	2,110
Copper rods	41	274
Copper concentrate	107	—

Despite the cessation of zinc metal production and sales, zinc revenues increased by US$47 million from US$146 million in 2009 to US$193 million in 2010, which was due to a combination of factors, including higher zinc concentrate prices during the year, higher zinc concentrate production volumes with higher ore output from the Artemyevsky and Abyz mines. The average zinc grade also improved in 2010 as higher grade ore was mined at the Orlovsky and Artemyevsky mines. The zinc concentrate realised price rose by 20 per cent. from US$/t 1,112 in 2009 to US$/t 1,133 in 2010 and sales volumes also grew by 26 per cent. from 135 kt in 2009 to 171 kt in 2010.

The following table compares Kazakhmys Copper's zinc sales volumes, average realised price and revenue for the years ended 31 December 2010 and 2009.

	Year ended 31 December	
kt (unless otherwise stated)	2009	2010
Zinc in concentrate (kt)	135	171
Zinc metal (kt)	17	—
Average realised price (US$/t)	944	1,133
Revenue from zinc (metal and concentrate) (US$ millions)	146	193

Revenues from Kazakhmys Copper's sales of gold increased by 29 per cent. from US$127 million in 2009 to US$164 million in 2010, as a result of an increase of 27 per cent. in the average realised price from US$961 in 2009 to US$1,219 in 2010.

The following table compares Kazakhmys Copper's gold sales volumes, average realised price and revenue for the years ended 31 December 2010 and 2009.

	Year ended 31 December	
	2009	2010
Gold (koz)	132	135
Averaged realised price (US$/oz)	961	1,219
Revenue from gold (excluding tolling) (US$ million)	127	164

Revenues from the sale of silver increased by 8 per cent. from US$251 million in 2009 to US$271 million in 2010. The increase in the average realised price by 37 per cent. was partially offset by the 18 per cent. decline in sales volume to 13,514 koz.

The following table compares Kazakhmys Copper's silver sales volumes, average realised price and revenue for the years ended 31 December 2010 and 2009.

	Year ended 31 December	
	2009	2010
Silver (koz)	16,397	13,514
Averaged realised price (US$/oz)	14.60	20.02
Revenues from silver (US$ million)	251	271

Revenues from the sale of other by-products increased by 58 per cent., from US$52 million in 2009 to US$82 million in 2010. This increase principally reflects increases in underlying commodity prices in 2010. Other revenues increased by 26 per cent., from US$70 million to US$88 million, largely due to the increased external sales of electricity and heat.

Kazakhmys Gold

Revenues for Kazakhmys Gold for the year ended 31 December 2010, as for the year ended 31 December 2009, were almost entirely derived from the sale of gold doré to a single European processor. The gold was sold at a price determined by reference to the LBMA price less refining charges under an annual contract. Kazakhmys Gold sales revenues were higher than the prior year as a 30 per cent. increase in the realised gold price offset the lower sales volumes of gold doré. Kazakhmys Gold's ore output for the year ended 31 December 2010 was below the prior year, as a result of extremely cold winter weather in the first quarter of 2010 that restricted operations at the two operating mines, Mizek Oxide and Central Mukur, both of which are open pits. Mizek Oxide's ore production was also impacted by power outages at the start of the year, and, following the depletion of extractable reserves, the mine closed in November 2010. Processing of previously mined material continued through the end of the year.

The decline in gold grade reflects the maturing of the two mines, and in particular, Mizek Oxide operations moved to sections with a lower metal content. Gold doré production fell approximately 8 per cent. for the year ended 31 December 2010 in comparison to 2009 to approximately 43 koz due to the lower ore volumes and grade in 2010.

The following table compares Kazakhmys Gold's gold sales volumes, average realised price and revenue for the years ended 31 December 2010 and 2009.

US$ million (unless otherwise stated)	Year ended 31 December	
	2009	2010
Gold doré (koz)	46.8	43.1
Average realised price (US$/oz)	982	1,275
Revenues	47	55

Year ended 31 December 2009 compared to 2008

Revenues of the Group in 2009 decreased by 29 per cent., from US$5,151 million in 2008 to US$3,680 million in 2009. This principally reflects the 35 per cent. decrease in copper prices from an average market price of US$6,952 per tonne in 2008 to US$5,164 per tonne in 2009, as well as lower sales volumes of copper products.

Kazakhmys Copper

Revenues from the sale of copper cathode and rod decreased by 38 per cent., from US$2,586 million in 2008 to US$1,604 million in 2009, largely due to the lower copper price and reduced sales volumes. In 2009, 22 kt of copper in concentrate was sold, principally into China, whilst in 2008 sales of only 3 kt took place. The sales to China were to test the market and, following a trial period, were largely stopped during the last quarter of 2009, with concentrate produced thereafter processed internally into cathodes. It was anticipated at the time that copper in concentrate sales may take place periodically; however, this is not expected to be on a large scale due to Kazakhmys Copper maintaining sufficient smelting capacity.

The following table compares Kazakhmys Copper's copper sales volumes, average realised price and revenue for the years ended 31 December 2009 and 2008.

kt (unless otherwise stated)	Year ended 31 December	
	2008	2009
Copper cathode	338	311
Copper rod	47	8
Copper concentrate (cathode equivalent)	3	22
Average realised price (US$/t)	6,714	5,024
Revenue from (US$ millions)		
Copper cathode	2,272	1,563
Copper rod	314	41
Copper concentrate	19	107

Zinc revenues decreased by 2 per cent., from US$149 million in 2008 to US$146 million in 2009. The 11 per cent. decline in realised zinc prices in 2009 as compared to 2008 and the reduced zinc metal sales following the suspension of the zinc plant in the first half of 2009 were offset to a large extent by increased sales of zinc concentrate to third parties in 2009 as the Group benefited from processing stockpiled concentrate and improved recovery rates at the concentrators.

The following table compares Kazakhmys Copper's zinc sales volumes, average realised price and revenue for the years ended 31 December 2009 and 2008.

kt (unless otherwise stated)	**Year ended 31 December**	
	2008	**2009**
Zinc in concentrate	98	135
Zinc metal	49	17
Average realised price (US$/t)	1,787	1,112
Revenue from zinc (metal and concentrate) (US$ millions)	149	146

Revenues from the sale of gold increased by 17 per cent., from US$109 million in 2008 to US$127 million in 2009, while silver revenues remained constant at US$251 million. The higher gold revenue reflects the 9.5 per cent. increase in realised gold prices and the 6.5 per cent. increase in sales volumes. Silver revenues were flat, reflecting a 0.4 per cent. decline in the average LBMA price offset by increased sales volumes from the silver content of the copper concentrate sold.

The following tables compare Kazakhmys Copper's gold and silver sales volumes, average realised prices and revenue for the years ended 31 December 2009 and 2008.

	Year ended 31 December	
	2008	**2009**
Gold (koz)	124	132
Averaged realised price (US$/oz)	878	961
Revenue from gold (excluding tolling) (US$ million)	109	127

	Year ended 31 December	
	2008	**2009**
Silver (koz)	17,140	16,397
Averaged realised price (US$/oz)	14.66	14.60
Revenue from silver (US$ million)	251	251

Revenues from the sale of other by-products increased by less than 2 per cent., from US$51 million in 2008 to US$52 million in 2009. The growth in other revenue in 2009 compared to the prior year was largely driven by sales of power from the Karaganda plant and the ramp up and sale of sulphuric acid production at Balkhash.

Kazakhmys Gold

In 2009, Kazakhmys Gold sold gold doré under an annual contract to a European trader, with the price determined by reference to the LBMA price less refining charges. Kazakhmys Gold's revenues decreased by US$2 million to US$47 million in 2009, despite a reduction in gold sales volumes of 8.4 koz, or 15 per cent., following the closure of the Zhaima mine in 2008 and the decrease in output from the Mizek mine. The lower sales volumes were largely offset by the strength of gold prices in 2009, with an average realised price of US$982 per ounce, 12 per cent. higher than in the prior year.

The following table compares Kazakhmys Gold's gold sales volumes, average realised price and revenue for the years ended 31 December 2009 and 2008.

	Year ended 31 December	
	2008	2009
	(US$ millions, unless otherwise stated)	
Gold doré (koz)	55.2	46.8
Average realised price (US$/oz)	878	982
Revenue	49	47

Cost of sales

The following table sets out the Group's cost of sales in U.S. Dollars for the years ended 31 December 2008, 2009 and 2010. Following the exclusion of purchased copper concentrate, costs incurred in Tenge account for a significant portion of the Group's total costs.

	Year ended 31 December		
	2008	2009	2010
	(US$ millions)		
Raw materials	739	331	403
Employee salaries and payroll taxes	330	253	267
Depreciation, depletion and amortisation	255	186	205
Production overheads	242	164	250
Mineral extraction tax (MET)	—	164	236
Other taxes	31	41	64
Utilities	34	33	38
Changes in inventories	(11)	(28)	(44)
Total continuing operations	**1,620**	**1,144**	**1,419**

A significant amount of the Group's cost of sales is incurred in Tenge. The devaluation of the Tenge in 2009 had a positive impact by reducing the Tenge-denominated cost of sales in U.S. Dollar terms. Also contributing to the fluctuation in cost of sales was the introduction of the MET in 2009, which is similar in nature to the royalties that were levied prior to 1 January 2009. The MET is a revenue-based tax determined by the volume and metal content of extracted ore and global commodity prices. See "—Factors Affecting Results of Operations" above.

Year ended 31 December 2010 compared to 2009

The Group's cost of sales increased by 24 per cent., from US$1,144 million in 2009 to US$1,419 million in 2010. This increase was principally driven by an increase in production costs, which (excluding depreciation, depletion, amortisation, MET and special items) increased by 23 per cent. as compared to 2009, as the higher commodity prices, expanded stripping works and greater ore output impacted the cost of raw materials, consumables, fuel and other inputs. The level of fuel usage also increased in 2010 as the power outages at Mizek Oxide at the start of the year resulted in the use of temporary generators.

The Group also had increased depreciation, depletion and amortisation and production overheads costs in 2010 as compared to 2009. The increase in depreciation and amortisation reflects replacements and upgrades of mining equipment that increased the Group's asset base and thus its depreciation costs.

Year ended 31 December 2009 compared to 2008

The Group's cost of sales decreased by 29 per cent., from US$1,620 million in 2008 to US$1,144 million in 2009. In response to the weakness in commodities, in 2009 Kazakhmys Copper implemented a number of cost reduction measures, which, along with the Tenge devaluation, contributed to this decrease in cost of sales. The major factors driving the lower costs included (i) the suspension of high cost mines, (ii) lower input prices, and (iii) a reduction in purchased concentrate. The effect of such measures was further impacted by the Tenge devaluation, which further reduced cost of sales in dollar terms of any Tenge denominated costs.

The suspension of high cost mines at the end of 2008 generated savings on fuel, consumables and ore transportation costs as ore output was 9 per cent. below the volume produced in 2008. Where possible, the workers and equipment at the affected mines were re-assigned to other operations. Salary costs were controlled by transferring staff at several operations to part-time work. The decision to suspend the zinc smelter in March 2009 removed the cost of processing concentrate further into ingots, as all zinc in concentrate was sold externally.

In the fourth quarter of 2008, the economic downturn gave Kazakhmys the opportunity to renegotiate more favourable terms with suppliers. In addition, the decline in commodity prices had a beneficial impact on costs. For example, oil, steel and cement prices were all lower in 2009 than in 2008. However, improving economic conditions and higher commodity prices in the second half of 2009 led to a slight upward pressure on costs in that period.

The cost of purchased copper concentrate and blister copper used in copper production decreased from US$250 million in 2008 to US$16 million in 2009, following the decision to cease major purchases of copper concentrate, as a consequence of one of the Zhezkazgan smelter furnaces being closed for maintenance. Small quantities of copper concentrate were still purchased to manage the level of sulphur in the Balkhash smelter. In 2008, 37.8 kt of copper cathodes were produced from purchased concentrate compared to 5.5 kt in 2009.

Gross profit

As a result of the factors discussed above, gross profit fell by 24 per cent. from US$1,656 million in 2008 to US$1,260 million in 2009 and rose by 44 per cent. to US$1,818 million in 2010. Gross margin increased from 51 per cent. in 2008 to 52 per cent. in 2009 and to 56 per cent. in 2010.

Selling and Distribution Expenses

The following table analyses the major components of selling and distribution expenses for 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(US$ millions)		
Selling and distribution expenses			
Transportation expenses	41	29	28
Port charges	25	15	16
Employee salaries and payroll taxes	3	3	3
Raw materials	2	1	2
Other	9	4	6
Total Continuing Operations	**80**	**52**	**55**

Year ended 31 December 2010 compared to 2009

Selling and distribution expenses increased by 6 per cent., from US$52 million in 2009 to US$55 million in 2010 as reduced volumes shipped were offset by tariff increases over the year. In addition, the reduction in transportation expenses also reflects a larger volume of copper cathode sales being made to Chinese customers than to European customers in 2010, which was the reverse of 2009. While Kazakhmys' European sales had higher transportation costs, the Group made these additional European sales in 2010 as part of a strategy to optimise revenues. Transportation costs amounted to 51 per cent. of total selling and distribution expenses in 2010, compared to 56 per cent. in 2009. Transportation costs in 2010 comprised mainly rail transport and freight costs.

Year ended 31 December 2009 compared to 2008

Selling and distribution expenses decreased by 35 per cent., from US$80 million in 2008 to US$52 million in 2009. The decrease reflects lower volumes of sales made during the period compared to 2008, the destination mix being altered as fewer shipments were made on the more expensive European routes, lower fuel costs for petrol and diesel, and the devaluation of the Tenge, as these costs are incurred in Tenge, partially offset by increased rail tariffs introduced in 2008 by the national railway. Transportation costs amounted to 56 per cent. of selling and distribution expenses in 2009, compared to 51 per cent. in 2008.

Administrative expenses

The following table analyses the major components of administrative expenses for 2008, 2009 and 2010.

	Year ended 31 December		
	2008	2009	2010
	(US$ millions)		
Administrative expenses			
Social responsibility costs	73	33	206
Employee salaries and payroll taxes	137	130	149
Legal and professional	29	36	81
Transportation	9	33	43
Levies and charges	25	27	39
Depreciation and amortisation	24	26	34
Personal injury claims	19	33	22
Utilities	18	21	22
Medical and social support	22	19	21
Business travel	14	13	18
Supplies	15	7	11
Communication	6	6	4
Bank fees	1	1	1
Other	15	17	7
Continuing Operations	**407**	**402**	**658**

Year ended 31 December 2010 compared to 31 December 2009

The Group's administrative expenses increased by 64 per cent., from US$402 million in 2009 to US$658 million in 2010, driven primarily by greater social spending in light of stronger commodity prices and higher consultancy fees incurred by the Group's operational improvement and restructuring programmes. This increase included the US$130 million charge for major social projects. The level of expenditure on other social assets was also higher than in the prior period and included a number of smaller projects in the communities in which the Group operates. Consultancy costs increased as Kazakhmys sought external support for operational improvement projects. Salary costs increased in 2010 due to pay rises targeted on specific categories of workers, which were only partially offset by the outsourcing of services which reduced Kazakhmys Copper's headcount.

Year ended 31 December 2009 compared to 2008

The Group's general and administrative expenses decreased by 1 per cent. from US$407 million in 2008 to US$402 million in 2009. In 2008, social spend included a number of one-off items in respect of the 10th anniversary celebration of the Kazakh capital city, Astana, whereas in 2009, Kazakhmys limited its spending to a number of ongoing and contractual obligations and a one-off contribution towards the construction of a technical college in Astana, resulting in a decrease of US$39 million when compared to 2008.

In 2009, employee salaries and payroll taxes decreased by 5 per cent. due to a combination of the devaluation of the Tenge and the transfer of some employees to a third party transport outsourcing company. The transportation of personnel between sites was outsourced during 2009 to a third party which operates and maintains Kazakhmys' vehicles. Together with the outsourcing of catering and certain security services, this resulted in a reduction in average headcount of 4,000 employees when compared to 2008. As a result of the outsourcing in 2009, the expenses related to transportation services (including outsourced services) has increased by US$24 million as compared to 2008. However, the increase was partially offset by the impact of the reduced headcount within the salary related costs.

Other income/(expenses)

Year ended 31 December 2010 compared to 2009

The Group's net other income was US$7 million compared to net other expenses of US$131 million in the prior period, as costs in 2009 included US$129 million of losses on the copper hedging programme intended to protect production from the higher cost mines in the Zhezkazgan region. The copper hedging programme completed during 2009 and no hedging programmes have commenced since.

Year ended 31 December 2009 compared to 2008

The Group's net other expenses were US$131 million in 2009, compared with net other income of US$144 million in 2008. The primary reason was the loss on the copper hedging programme of US$129 million in 2009, when the hedges were closed out compared to a gain on the mark-to-market of the programme of US$143 million in 2008. With the exception of these two hedging programmes, the other income and expenses have remained consistent over the two periods.

Impairment losses

Year ended 31 December 2010 compared to 2009

Impairment losses decreased by 89 per cent., from US$126 million in 2009 to US$14 million in 2010. This decrease principally reflected the improved economic conditions over the period from 2009 and the curtailment of certain projects during the period of sustained depressed commodity prices during 2008 and 2009. In 2010, social assets constructed by Kazakhmys Copper as part of the Group's social programme of US$13 million were impaired as these assets were not deemed to be part of the cash generating unit of Kazakhmys Copper.

Included within the provisions against inventories is an impairment loss of US$15 million relating to general slow moving inventory and a reversal of a previous impairment against certain stockpiled ore of US$18 million. In 2008, it was envisaged that the stockpiled ore would not be processed in the future as this would have been uneconomic at the prevailing commodity prices. However, during 2010 certain of these stockpiles were processed and the previous impairment reversed.

Year ended 31 December 2009 compared to 2008

Impairment losses decreased by 67 per cent., from US$381 million in 2008 to US$126 million in 2009. In 2008, as a consequence of low commodity prices, the impairment losses primarily related to provisions of US$292 million against the carrying value of Kazakhmys Gold, which included the associated goodwill and the impairment of the zinc smelter, trade and other receivables and inventory provisions of US$83 million. Write offs and impairment losses in 2009 primarily reflected the write-down of property, plant and equipment of US$50 million as a result of the curtailment of the capital expenditure and closure of certain mines as well as a US$21 million provision against the carrying value of slow moving inventories and certain by-products to their approximate market value and a provision of US$23 million against trade and other receivables.

Share of profits from joint venture

Year ended 31 December 2010 compared to 2009

Following the disposal of 50 per cent. of Ekibastuz GRES-1, a subsidiary within Kazakhmys Power, to Samruk-Kazyna on 26 February 2010, the Group accounted for the 50 per cent. retained interest in Ekibastuz GRES-1 as an equity-accounted joint venture. Included in the Group's results for continuing operations was the Group's share of the profits after tax from the joint venture for the period from 27 February 2010 to 31 December 2010, net of tax, of US$38 million.

Year ended 31 December 2009 compared to 2008

The Group was not a party to any joint venture during these periods.

Share of profits from associate

Year ended 31 December 2010 compared to 2009

In the years ended 31 December 2010 and 2009, the Group equity accounted for its 26 per cent. interest in ENRC. The share of profits after tax from the associate recognised in the consolidated income statement for the year ended 31 December 2010 was US$522 million based on the results of ENRC for the year ended 31 December 2010, which were published on 23 March 2011. When compared to 2009, the share of profits after tax from ENRC increased by 134 per cent. from US$223 million.

Based on the 2010 final dividend announced by ENRC on 23 March 2011 of 18.0 U.S. cents per share, the Group expects to receive US$60 million in June 2011 in respect of ENRC's profits for the year ended 31 December 2010.

Year ended 31 December 2009 compared to 2008

Following the share exchange with the Government and incremental market purchases of shares during the second half of 2008, the Group's shareholding in ENRC was 26 per cent. As the Directors were of the view that the Group had the ability to exercise significant influence over the operating and financial policies of ENRC, the Group accordingly equity accounted for its interest in ENRC from 27 October 2008, when the Group's shareholding increased to 26 per cent.

The share of profits from the associate recognised in the consolidated income statement for the full year, net of tax, is US$223 million based on the unaudited results of ENRC for the year ended 31 December 2009, which were published on 24 March 2010. This contrasts against a figure of US$255 million in 2008, which resulted from five months of equity accounted earnings only.

Profit from continuing operations before tax and finance costs

As a result of the factors discussed above, profit from continuing operations before tax and finance costs decreased by 35 per cent., from US$1,187 million in 2008 to US$772 million in 2009 and increased by 115 per cent. to US$1,658 million in 2010.

Net financing income/(expenses)

Year ended 31 December 2010 compared to 2009

Net financing expenses for the year ended 31 December 2010 were US$68 million compared to net financing income of US$256 million for the previous year. The net financing income in 2009 included a net foreign exchange gain of US$336 million within continuing operations arising from the retranslation of US dollar denominated monetary assets and liabilities of the Group's Kazakhstan subsidiaries following the devaluation of the Tenge in February 2009. The foreign currency movements in 2010 have resulted in a net exchange loss of US$17 million, of which the 1 per cent. appreciation of the Tenge against the U.S. dollar contributed a US$20 million loss.

The Group's interest charges incurred on borrowings outstanding during 2010 decreased by US$4 million on the prior year to US$47 million. The charge includes US$20 million in respect of the pre-export finance debt facility ("PXF"), which carries a margin of US$ LIBOR plus 1.25 per cent. and US$11 million for the CDB/Samruk-Kazyna financing facilities, drawn down for the first time during 2010, which incur interest at US$ LIBOR plus 4.80 per cent. The marginal decrease in the interest charge for the year is a result of the lower average debt outstanding due to the repayment of the PXF over the year, partially offset by the higher average effective interest rate due to the drawing down of the CDB/Samruk-Kazyna financing facilities.

Year ended 31 December 2009 compared to 2008

Net financing income of the Group increased to US$256 million in 2009 from a net financing expense of US$43 million in 2008 principally as a result of an increase in foreign exchange gains, which was off-set partially by lower interest income. Low US$ LIBOR rates during 2009, combined with the lower average cash balances in the Group compared to 2008, resulted in interest income earned on cash and deposit balances falling to US$8 million compared to US$21 million in 2008. The Group incurred interest charges of US$51 million during 2009 and US$49 million during 2008 on the pre-export finance debt facility (PXF), which accrues interest at US$ LIBOR plus 1.25 per cent.

Foreign exchange gain/(losses)

The Group had net foreign exchange losses of US$6 million and US$17 million in 2008 and 2010 respectively resulting from the strengthening of the Tenge against the U.S. Dollar in these years. In 2009, as a result of the devaluation of the Tenge in February 2009, the Group recognised a net foreign exchange gain of US$308 million. These foreign exchange differences arise from the retranslation of U.S. Dollar denominated monetary assets and liabilities held at the Group's Kazakhstan based operations.

Income tax expense

Year ended 31 December 2010 compared to 2009

Income tax expense of the Group decreased by 23 per cent., from US$261 million in 2009 to US$202 million in 2010. The Group's effective tax rate was 12.7 per cent. in 2010 compared to 25.4 per cent. in 2009. The Group's all-in effective tax rate was 37.5 per cent. in 2010 compared to 42.5 per cent. in 2009. This decrease was primarily due to the substantial decrease in the Group's effective tax rate and the proportionately lower MET charge as compared to the increased underlying profitability of the Group.

Year ended 31 December 2009 compared to 2008

Income tax expense of the Group decreased by 19 per cent., from US$324 million in 2008 to US$261 million in 2009. This was due principally to the decrease in the Group's profit before tax in 2009, a reduction in the Kazakhstan corporate income tax rate from 30 per cent. to 20 per cent. and the cessation of excess profit tax applicable to the Group. This decrease was offset by an increase in non-deductible expenses relating to the loss on the copper hedging programme and a provision for transfer pricing liabilities arising on inter-company sales transactions. Whilst the effective rate of tax for 2009 was 25.4 per cent., compared to a rate of 28.3 per cent. in the prior year, the all-in effective tax rate was significantly higher at 42.5 per cent. compared to 30.1 per cent. in 2008, primarily as a result of the introduction of the MET.

Profit for the period

The Group's profit for the period increased by 162 per cent. in 2010, from US$553 million in 2009 to US$1,450 million in 2010. Profit for the period decreased by 39 per cent. in 2009, from US$910 million in 2008 to US$553 million in 2009.

Discontinued Operations

As explained above in "—Basis of Preparation", MKM and Maikuben West have been classified as being held for sale and as discontinued operations within the consolidated historical financial information. Ekibastuz GRES-1 is classified and disclosed as discontinued operations for the period from 1 January 2008 to 26 February 2010, and as held for sale for the period from 1 January 2009 to 26 February 2010.

In 2009, the Directors decided to dispose of MKM given that the Group's strategy is to focus on natural resource opportunities principally within the Central Asian region. This business was therefore classified as an asset held for sale and as a discontinued operation.

In addition, following the announcement on 10 December 2009 that the Group had agreed to dispose of 50 per cent. of Ekibastuz GRES-1 LLP, a wholly owned subsidiary within Kazakhmys Power, to Samruk-Kazyna for a consideration of US$681 million, the Directors classified the entity as being held for sale and as a discontinued operation within the consolidated historical financial information. The transaction completed in February 2010 and the Group retained a 50 per cent. non-controlling interest in the entity, which is accounted for as a joint venture after completion.

Furthermore, the Directors also decided to dispose of the Maikuben West coal mine, also within Kazakhmys Power, following a change in the long-term strategy of the coal mine, where only a portion of the mine's produced coal would be used by Ekibastuz following the sale of 50 per cent. to Samruk-Kazyna. Following this change in Maikuben's customer base and the impact on the future profitability of the business, the Group decided to dispose of Maikuben West coal mine. This entity was therefore classified as an asset held for sale and as a discontinued operation within the consolidated historical financial information. The sale completed on 17 May 2011.

The profit after tax of Kazakhmys Power and MKM, together with impairment losses and any write down to fair value, are included within the consolidated income statement as part of the loss/profit for the year from discontinued operations. Prior to MKM and Kazakhmys Power being reclassified as assets held for sale, impairment reviews were performed to write down the divisions to their recoverable amount. Once classified as an asset held for sale, a further write down was recognised to record the division at its expected fair value from a disposal. The Group had impairment charges of US$190 and US$69 million with respect to MKM and the Maikuben West coal mine, respectively, to write-down these assets to their net realisable value. A summary of the loss/profit from discontinued operations is shown below.

	Year ended 31 December		
	2008	2009	2010
	(US$ millions)		
Revenues	1,875	1,276	1,510
Cost of sales	(1,777)	(1,050)	(1,285)
Operating costs	(115)	(100)	(86)
Impairment losses	(19)	(101)	—
Net finance costs	(22)	(87)	(8)
Impairment loss recognised on the re-measurement to fair value less costs to sell	—	(158)	(70)
(Loss)/Profit before tax from discontinued operations	(58)	(220)	61
Income taxes:			
Related to current year loss before taxation (current and deferred taxes)	148	(1)	**(25)**
Related to measurement to fair value less costs to sell (deferred tax)	—	7	**12**
	90	(214)	**48**
Gain on disposal of share in subsidiary (see note 5)	—	—	**14**
Attributable income tax expense	—	—	**—**
	—	—	**14**
Profit/(Loss) for the year from discontinued operations	90	(214)	62
Analysed as:			
MKM	(41)	(130)	15
Kazakhmys Power[(1)]	131	(84)	47

(1) Kazakhmys Power for the period from 1 January 2010 to 26 February 2010 and the years ended 31 December 2009 and 2008.

MKM

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

Year ended 31 December 2010 compared to 2009

GVA

MKM's sales recovered in 2010 from the weak demand experienced in 2009, leading to GVA rising from €123 million to €146 million. MKM's largest market by sales is Germany, representing over 40 per cent. of total sales volumes. MKM's domestic sales volumes increased by 17 per cent. in 2010, offsetting the lower volumes sold to Eastern Europe. Overall sales volumes grew by 7 per cent. in 2010, which was achieved alongside a GVA per tonne increase from €521 to €578. Management reduced sales of copper wire rods, partly to preserve working capital through reduced inventory and trade receivables, and increased sales of higher value added products such as drawn wire, strips and bars which rose 34 per cent., 13 per cent. and 9 per cent., respectively, compared to the prior year. In response to demand, MKM extended its product range during 2010 and added additional capacity to certain lines. Another factor in rising sales was the availability of debtor insurance, which forms part of MKM's risk management strategy. Debtor insurance was limited in availability during 2009 but, over the course of 2010, credit limits for customers have been progressively raised, enabling MKM to accept orders it may otherwise have refused.

EBITDA (excluding special items)

EBITDA increased by US$5 million to US$81 million in the year ended 31 December 2010 from US$76 million in the prior period. Movements in the copper price are reflected in the IFRS inventory adjustment which was US$43 million in 2010 and US$58 million in 2009. Excluding the impact of the IFRS adjustment and expressed in Euros to better reflect underlying performance, MKM's EBITDA rose to €28 million, an increase of 87 per cent. compared to 2009. The growth in EBITDA has been the result of the improved market conditions and MKM management focusing on control over costs, although measures taken in 2009, such as cancelling production shifts and overtime work, have now ended due to the higher volumes being processed.

Net profit/(loss)

The net profit of MKM was US$15 million in 2010 as the improvement in business performance was offset by a pre-tax impairment loss of US$58 million to remeasure MKM's net assets to fair value. A deferred tax credit of US$12 million was recognised taking the post-tax MKM write off to US$46 million. In 2009, MKM made a loss of US$130 million which included an impairment loss of US$187 million to write down the business to its recoverable amount on a value-in-use basis and subsequently remeasuring MKM's net assets to fair value. Partially offsetting the write down of US$187 million in 2009 was a US$27 million deferred tax credit.

Year ended 31 December 2009 compared to 2008

GVA

GVA fell by 24 per cent. in 2009, principally due to the economic weakness in Europe, MKM's core marketplace, which accounts for almost 90 per cent. of sales volumes. Industrial output in the region was severely impacted by the economic downturn in 2009, which led to lower demand across all product lines. The lack of availability of debtor insurance in 2009, which forms part of MKM's risk management policy, further restricted MKM's potential customer base during the year. These factors led to sales volumes falling by 13 per cent. from 273 kt to 237 kt, with reductions across all three sections.

Within the wire section, wire rod sales volumes were supported by high demand in eastern Europe; however, overall volumes were lower as sales to MKM's core markets declined. GVA from the wire section was also impacted in 2009 as a result of lower sales from the higher margin drawn wire products driven by weakness in the automotive industry. Flat products, consisting of plates, strips and sheets, experienced a 15 per cent. decrease in GVA per tonne due to reduced demand and pricing pressure from competitors. Tubes and bars saw volumes reduce by 15 per cent. as compared to 2008 due to a slowdown in building industry activity.

Whilst the first half of the year was extremely challenging, MKM benefited from a recovery in orders in the second half of 2009 as the major European economies improved.

EBITDA (excluding special items)

Although GVA decreased in 2009, EBITDA was US$77 million higher than in the prior year. EBITDA in 2009 included a positive US$58 million inventory adjustment due to the rising copper price over the year, compared to a negative US$48 million adjustment in 2008. Excluding the impact of the inventory adjustment and presented in Euros to better reflect underlying performance, EBITDA was €15.0 million in 2009, €14.9 million lower than in the prior year. In response to the lower demand, certain production shifts were cancelled, overtime work was substantially reduced and temporary workers were released. Other costs that reduced in 2009 as compared to 2008 included utility costs, which were lower as a consequence of lower gas prices and energy consumption due to the decline in production volumes. In addition, maintenance work was carried out internally wherever possible.

Net profit/(loss)

Overall, MKM contributed to the Group a net loss of US$130 million in 2009 compared to US$41 million in 2008 as a result of the impairment charges incurred by the Group in 2009 on writing the net assets down to realisable value less costs to sell. MKM made a loss before tax for 2009 of US$141 million.

Kazakhmys Power

Kazakhmys acquired the Ekibastuz GRES-1 coal fired power station and the Maikuben West coal mine in May 2008. Under a management services agreement entered into as part of the acquisition, the assets were managed by AES Corporation, the previous owner of the power station and coal mine. In the second quarter of 2009, Kazakhmys and AES Corporation ended the management services agreement, following which the power station and coal mine came under Kazakhmys' direct management. On 26 February 2010, the Group completed the disposal of 50 per cent. of Ekibastuz GRES-1 to Samruk-Kazyna. For the period 1 January 2008 to 26 February 2010, Kazakhmys Power was accounted for as a discontinued operation as required by IFRS at 100 per cent. Subsequently and for the remainder of 2010, the Group's retained 50 per cent. interest in Ekibastuz GRES-1 LLP was considered an investment in a joint venture and was accounted for on the equity basis. Similar to the accounting treatment and disclosure of the Group's investment in ENRC, the Group's share of

Ekibastuz' net income for the year is shown as a single line in the Group's income statement "Share of results of joint venture" and as one line in the Group's balance sheet "investment in joint venture".

Year ended 31 December 2010 compared to 2009

Revenue

The demand for power in Kazakhstan grew substantially in 2010 compared to the prior year as industrial demand recovered. Much of the increased demand was met by increased production from hydropower stations in Kyrgyzstan (as a result of unusually high rainfall in early 2010), but Ekibastuz GRES-1 was able to partially offset the impact of this increased production by commencing sales to Russia. Agreement on pricing of export sales to Russia was only reached in June 2010, so sales to Russia were minimal during the period to 26 February 2010.

Revenues from Ekibastuz GRES-1 LLP attributable to Kazakhmys from the period 1 January 2010 to 26 February 2010 were US$64 million.

Revenue from coal sales made by the Maikuben West coal mine were US$30 million, or 103 per cent., above the prior year due to increased demand from the Russian power market which recorded a significant growth in sales volumes.

EBITDA (excluding special items)

Kazakhmys Power contributed US$58 million to the Group's EBITDA (excluding special items) within discontinued operations, of which Ekibastuz GRES-1 contributed US$36 million. In the prior year, Ekibastuz GRES-1 contributed EBITDA of $120 million. Kazakhmys Power's EBITDA (excluding special items) was primarily derived from Ekibastuz GRES-1, which comprised over 90 per cent. of the division's EBITDA (excluding special items) from the period 1 January 2010 to 26 February 2010.

Net profit/(loss)

The net profit contribution of Kazakhmys Power in 2010 was US$47 million, comprising a gain on the disposal of 50 per cent. of Ekibastuz GRES-1 of US$14 million, the post-tax results of Ekibastuz GRES-1 for the period up to the date of disposal of US$28 million and the post-tax results of the Maikuben West coal mine, part of the Kazakhmys Power Division, of US$5 million.

Year ended 31 December 2009 compared to 2008

Revenue

Kazakhmys Power's revenue for 2009 was US$238 million, which represented its first full year under Kazakhmys' ownership, during which sales benefited from electricity tariff increases in Kazakhstan and Russia but were negatively impacted by low sales volumes in the first half of 2009 due to the economic downturn. The revenues, as presented in U.S. dollars, were also negatively impacted by the Tenge devaluation in February 2009. Revenues for 2008, for the period following acquisition on 29 May 2008, were US$156 million.

The average realised electricity price for Ekibastuz GRES-1 in Kazakhstan rose from 2.79 KZT/kWh in January 2009 to 3.58 KZT/kWh in December 2009. The strength in demand in Kazakhstan during the second half of the year enabled the power plant to raise prices and grow output concurrently, assisted by the recovery in industrial production, reduced supply from competitors and the upgrade of the transmission lines giving access to new customers. Net power generated in 2009 was 9,737 GWh, down from 10,402 GWh in 2008 (5,774 GWh of which was attributable to Kazakhmys).

The average electricity tariff price achieved in 2009 included sales to Russia at rates below those in Kazakhstan. Approximately 20 per cent. of sales volumes were exported to Russia in 2009.

Kazakhmys Power's revenues of US$238 million included US$29 million from the Maikuben West coal mine. The mine sells coal to residential and industrial users. Third party coal sales volumes decreased by 33 per cent. from 2008 to 2009 due to the downturn in electricity demand in Russia compared with the prior year. Coal prices for sales to third parties remained largely unchanged from 2008.

EBITDA (excluding special items)

Almost 90 per cent. of Kazakhmys Power's EBITDA was generated by Ekibastuz GRES-1. Treating the impairment loss as a special item, the EBITDA (excluding special items) of Kazakhmys Power was US$120 million for 2009, compared to US$42 million for 2008. This increase was due to the inclusion of a full year of earnings from Kazakhmys Power for 2009 compared to only seven months for 2008 and the impact of higher tariff prices and a cost reduction programme within the business during 2009. These factors were offset by the devaluation of the Tenge which adversely impacted profitability.

The coal used by Ekibastuz GRES-1, largely sourced from the nearby Bogatyr mine, forms the primary operating cost of the power station. Coal prices at the start of 2009 were 10 per cent. above those in 2008. During the year, Bogatyr raised prices further and Ekibastuz GRES-1 began purchasing varying grades of coal to keep the overall average cost down. To further control costs, Kazakhmys Power took a number of actions in 2009, including carrying out repair and maintenance work internally and implementing projects to improve the efficiency of the power station.

The majority of Kazakhmys Power's operating costs are denominated in Tenge and therefore partially mitigated the impact of the Tenge devaluation on revenue when reported in U.S. dollars.

Net profit/(loss)

Kazakhmys Power made a net loss before tax for the year of US$79 million. Included within this amount was a foreign exchange loss of US$53 million which arose as a result of the devaluation of the Kazakhstan Tenge in February 2009. An impairment loss of US$69 million was recognised in order to write down the carrying value of Maikuben West LLP to its recoverable amount. No impairment loss was recognised in relation to Ekibastuz GRES-1 LLP.

Excluding the impact of the foreign exchange loss and impairment losses, the profit before tax of Kazakhmys Power would have been US$43 million.

Even though the disposal of Ekibastuz GRES-1 LLP was announced during 2009 and the cash proceeds of US$681 million were received by the Group in December 2009, since the disposal was conditional upon receiving shareholder approval and regulatory clearances which were only obtained in February 2010, the profit arising on disposal was recognised when all approvals were obtained and legal completion occurred, which was in the year ended 31 December 2010.

Liquidity and capital resources

The overriding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the commodity cycle and to maintain an optimal capital structure with a view to maximising returns to shareholders (either through ordinary or special dividends, or share buy-backs) and benefits to other stakeholders by reducing the Group's cost of capital.

At 31 December 2010, total capital employed (which comprises equity shareholders' funds, non-controlling interests and borrowings) of the Group amounted to US$10,038 million, compared to US$8,245 million at 31 December 2009. Total capital employed is the measure of capital that is used by the Directors in managing capital.

As a result of acquisitions made during 2008 and the development of the Group's major projects during 2009 and 2010, the Group has moved into a net debt position from continuing operations of US$350 million as at 31 December 2010 compared to US$689 million as at 31 December 2009. The Group manages net debt to ensure that it does not exceed two times normalised EBITDA through the commodity cycle, where normalised EBITDA excludes special items and equity accounted earnings from ENRC and Ekibastuz GRES-1 LLP (from 27 February 2010). Included within the debt facilities are financial covenants related to maximum borrowing levels (determined by reference to net debt to EBITDA and debt to equity ratios) and minimum tangible net worth for which compliance certificates are produced. All financial covenants were fully complied with during 2010. There were no covenants under negotiation as at the Latest Practicable Date.

The Group's primary source of liquidity for its operations is cash provided by its operating activities.

Liquidity

The table below sets forth the components of the Group's cash flows for both continuing and discontinued operations for the periods indicated.

	Year ended 31 December		
	2008	2009	2010
	(US$ millions)		
Net cash flows from operating activities	1,099	820	1,098
Net cash flows from/(used in) investing activities	(2,531)	47	(1,115)
Net cash flows from/(used in) financing activities	1,533	(403)	199
Net increase in cash and cash equivalents	101	464	182
Cash and cash equivalents at the beginning of the period	439	540	945
Currency translation differences	—	(59)	(1)
Cash and cash equivalents at the end of period	540	945	1,126

Net cash flows from operating activities

The Group generated US$1,098 million in cash from operating activities for the year ended 31 December 2010, compared to US$820 million in 2009. The higher level of cash generated in 2010 primarily reflected higher copper prices during the period, which significantly improved profits, and a lower adverse effect of working capital movements. The operational cash generated was offset by the payment of US$365 million in taxes, which related to advance payments in respect of the estimated 2010 tax charge and a settlement of the final tax bill in respect of the 2009 year tax charge. Working capital movement was an outflow of US$49 million in 2010 compared to an outflow of US$216 million in 2009. These movements resulted principally from an increase in inventories and trade receivables at Kazakhmys Copper and MKM of approximately US$296 million in 2010 as work-in-progress was stockpiled at the Kazakhmys Copper smelters and copper price increases impacted both finished good inventories and trade receivables. The outflow in 2010 from inventories and receivables was compensated for by a decrease in prepayments as the Group received capital equipment bought in advance and an increase in accruals principally as a result of the expanded social commitments during the year.

The Group generated US$820 million in net cash from operating activities in 2009 compared to US$1,099 million in 2008. This decrease was caused by lower earnings from operations in 2009 as a result of a decline in commodity prices and increased working capital, primarily due to increases in inventories and receivables at Kazakhmys Copper and MKM. Kazakhmys Copper's inventories for 2009 included an increase in work in progress within its smelters in the last quarter of that year. The increase in trade receivables within Kazakhmys Copper was due to the sharp increase in commodity prices in the second half of 2009. Negative final pricing adjustments on provisionally priced contracts at 31 December 2008 within Kazakhmys Copper of approximately US$50 million were paid to Chinese customers in January and February 2009 due to the sharp fall in copper prices at the end of 2008. These adjustments contributed to the increase in working capital in 2009 as compared to 2008 in respect of trade and other payables within Kazakhmys Copper. Within MKM, the adverse working capital impact on inventory levels of US$102 million and trade receivables of US$16 million was largely commodity price driven. These adverse movements in earnings and working capital were offset by lower tax payments during the year (including MET) of US$264 million in 2009 compared to US$621 million in 2008.

Net cash flows from/used in investing activities

The Group used US$1,115 million in cash from investing activities in 2010, compared to US$47 million from investing activities in 2009. This principally reflected capital expenditures of US$666 million, which was increased from the 2009 programme. The major items of expansionary capital expenditure in Kazakhmys Copper during 2010 include the feasibility study on the sulphide ore deposit at Bozshakol, the continued development of the West Nurkazgan mine, geological and exploratory work at East Nurkazgan, geological work at Zhomart phase 2 and drilling and assaying at the Akbastau and Kosmurun development projects. In Kazakhmys Gold, expenditure on construction and equipment relating to the development of the Bozymchak project was incurred in 2010. At Kazakhmys Petroleum, exploration work on the existing wells continued during 2010. The Group also placed US$298 million in short-term bank deposits. Net cash flows from investing activities for 2010 also include the loss of US$107 million of cash at Ekibastuz GRES-1 when the disposal of 50 per cent. of the Group's interest completed in February 2010.

The Group received dividends of US$62 million from ENRC in 2010, compared to US$84 million in 2009, representing the final 2009 dividend and the 2010 interim dividend of ENRC. Dividends received have been credited against the carrying value of the investment in ENRC and are not included within earnings. The Group received US$47 million cash from investing activities in 2009, mainly as a result of the receipt of sale proceeds from the 50 per cent. disposal of Ekibastuz GRES-1 LLP of US$681 million offset by purchases of plant and equipment, mining assets and subsoil contract licence payments amounting to US$434 million and the deferred consideration paid for the original acquisition of Ekibastuz GRES-1 LLP of US$185 million.

Cash flows used in investing activities were US$2,531 million in 2008. This predominantly represented the cash outflows for the purchase of the Group's share in ENRC of US$918 million, the cash cost of the acquisition of Ekibastuz GRES-1 LLP of US$993 million (including the deferred consideration) and US$654 million in capital expenditures.

Net cash flows from/used in financing activities

The Group received US$199 million in cash from financing activities for the year ended 31 December 2010. This reflected the payment of dividends totalling US$80 million and repayment of US$572 million of borrowings, being the repayments of US$525 million on the pre-export facility and US$47 million repaid by MKM in relation to the trade finance facility. The cash outflows were fully offset by US$855 million in net proceeds from borrowings, US$700 million from the CDB/Samruk-Kazyna facilities and the remainder drawn down by MKM for working capital support.

Net cash flows used in financing activities were US$403 million in 2009. This principally reflected the repayment of the Group's pre-export facility of US$438 million and the repayment of approximately US$211 million partially offset by US$253 million in net proceeds in respect of a drawdown under MKM's trade finance facility.

Net cash flows from financing activities were US$1,533 million in 2008, primarily due to US$2.1 billion proceeds from the Group's pre-export facility offset by repayment of existing borrowings of US$268 million, including repayment of the external debt acquired with Kazakhmys Power and repayments in respect of MKM's trade finance facility, US$121 million in respect of payments for the Group's share buy-back programme and US$200 million dividends to shareholders.

Cash and cash equivalents

The Group holds its cash principally in U.S. Dollars and, to a lesser extent, in Tenge and Euros. Cash and cash equivalents consist of cash, short-term deposits and highly liquid investments that are readily convertible into known amounts of cash and that are subject to insignificant risk of changes in value. For a discussion on the Group's treasury policies as related to its management of market risk, see "—Disclosures about market risk".

As at 31 December 2010, the continuing operations of the Group had cash and cash equivalents and long-term bank deposits of US$1,469 million. In May 2010 the Group paid US$48 million in dividends in respect of 2009 profits, and in October 2010, the Group paid an interim dividend of US$32 million. In addition, the Group has ongoing capital expenditures. See "—Capital expenditures". Based on the latest unaudited management information available, the Group had cash and cash equivalents and long-term bank deposits from continuing operations of US$1,474 million as of 30 April 2011.

Bank debt

The Group has a number of committed facility agreements in place with different banks, under which it has a total of approximately US$2 billion available under the CDB/Samruk-Kazyna facility for funding of specific development projects and US$370 million (US$300 million of which is available under the revolving facilities described below) for general corporate purposes. As at 31 December 2010, the Group's long-term borrowings from continuing operations were US$1,300 million and its short-term borrowings, including the current portion of long-term borrowings, were US$519 million. Based on the latest unaudited management information available, the Group had outstanding borrowings from continuing operations of US$1,646 million as of 30 April 2011. There have been no financial ratio or covenant breaches under any of the credit facilities during the Track Record Period nor has there been a negative statement received from a credit facility provider.

In addition to the facilities detailed below, on 13 June 2011, the Group entered into a non-binding memorandum of understanding with China Development Bank for the provision of a US$1.5 billion financing facility for the funding of the Aktogay project.

Revolving credit facilities

The Group has available to it US$300 million in committed credit facilities for general corporate purposes and to provide standby liquidity as follows:

(1) a US$150 million revolving credit facility agreement with a syndicate of banks, comprising Bank of Tokyo-Mitsubishi UFJ Ltd, Commerzbank AG and Crédit Agricole Corporate and Investment Bank. The facility has a final maturity in March 2013.

(2) a US$100 million revolving credit facility agreement with Bank of China Limited, London Branch. The facility is available until March 2013.

(3) a US$50 million revolving credit facility agreement with Citibank N.A., London Branch. The facility is available until September 2011.

Each of the revolving credit facilities is subject to a ratio of net borrowings to tangible net worth of each of the Group and Kazakhmys Corporation LLC not exceeding 1:1 and net borrowings to EBITDA not exceeding 2.5:1. In the case of each of the revolving credit facilities, typical event of default provisions apply, including cross-default of financial indebtedness obligations of the Company or of any of its material subsidiaries, or in the event of a change of control of Kazakhmys Corporation LLC or Kazakhmys Finance.

The Company has provided a guarantee of Kazakhmys Finance's obligations under each of the revolving credit facility agreements.

As at 30 April 2011, the revolving facilities were undrawn.

US$2.1 billion pre-export finance (PXF) facility

On 29 February 2008, Kazakhmys Finance signed a five-year US$2.1 billion pre-export finance (PXF) facility agreement with a syndicate of banks to be used for trade finance and general corporate purposes, including the acquisition of the Ekibastuz GRES-1 power station and Maikuben West coal mine and incremental purchases of shares in ENRC. As at 30 April 2011, the facility was fully drawn. The facility is secured on the value of copper sales contracts with certain designated customers. Monthly repayments commenced in March 2009 at the rate of US$44 million per month and will continue until February 2013 (arrangement fees were US$26 million). Interest is payable on the drawn balance at a rate of LIBOR plus 1.25 per cent. Commitment, arrangement and agency fees also apply.

The terms of the PXF provide that if any person (excluding Mr. Kim or Mr. Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the PXF shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the PXF so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the PXF. If no alternative basis has been agreed during such period then the lenders may cancel the commitments of the lenders to lend the PXF and declare all outstanding amounts due and payable.

The PXF is subject to a ratio of net borrowings to tangible net worth of each of the Group and Kazakhmys Corporation LLC not exceeding 1:1 and net borrowings to EBITDA not exceeding 2.5:1, the total amount of net borrowings of Kazakhmys Corporation LLC not exceeding US$3,300 million, and the tangible net worth of Kazakhmys Sales Limited being more than zero. Typical event of default provisions apply, including in the event of (i) cross-default of financial indebtedness obligations of the Company or any of its subsidiaries, (ii) a change of control of Kazakhmys Corporation LLC, Kazakhmys Finance or Kazakhmys Sales Limited, (iii) non-maintenance of sales coverage ratios by Kazakhmys Sales Limited, (iv) Kazakhmys Sales Limited ceasing to be the only counterparty for the sale of copper cathodes and wire rods by Kazakhmys Corporation LLC outside Kazakhstan and the CIS, and (v) cessation of the production and sale of copper cathodes and wire rods by Kazakhmys Corporation LLC and/or Kazakhmys Sales Limited.

The Company, Kazakhmys Corporation LLC and Kazakhmys Sales Limited have guaranteed Kazakhmys Finance's obligations under the facility. Kazakhmys Sales Limited has additional obligations, including the maintenance of (i) a secured account for collection of monies due from certain designated customers, (ii) rights and obligations under certain designated sales contracts, and (iii) sales coverage ratios by reference to the price of minimum aggregate tonnages of copper deliverable under designated sales contracts against debt service instalments payable under the facility.

US$2.7 billion financing facility

China Development Bank (CDB) and Samruk-Kazyna entered into a US$2.7 billion framework finance agreement dated 22 June 2009 and, together with the Company, a memorandum of financial co-operation dated 14 November 2009, primarily to support the development of certain growth projects of the Group. The funds are available within a three-year period and once drawn will incur interest semi-annually at an annualised rate of six-month LIBOR plus 4.8 per cent.

The transaction consists of a two-tier structure, with loans from CDB to Samruk-Kazyna and arrangements between Samruk-Kazyna and Kazakhmys Finance. As at the Latest Practicable Date, Samruk-Kazyna has signed facility agreements with Kazakhmys Finance PLC, pursuant to which Samruk-Kazyna has on-lent US$2.3 billion of the US$2.7 billion CBD loan facility. It is intended that the remaining US$400 million will be lent by CDB to Samruk-Kazyna and on-lent by Samruk-Kazyna to Kazakhmys Finance by 2012 for funding the development of the Group's projects approved by CDB and Samruk-Kazyna.

On 30 December 2009, facility agreements were signed between Samruk-Kazyna and Kazakhmys Finance, pursuant to which a US$100 million facility was provided to Kazakhmys Finance relating to the Bozymchak Project and a US$2.0 billion facility was provided to Kazakhmys Finance relating to the Bozshakol Project. On 12 January 2010, an additional facility agreement was signed between Samruk Kazyna and Kazakhmys Finance, pursuant to which a US$200 million facility was provided to Kazakhmys Finance relating to the Abyz and Nurkazgan Projects. The loans have a final maturity of between 12 and 15 years from first drawdown and repayment of principal commences from the end of the third year following first drawdown under each facility. As at 30 April 2011, US$689 million was drawn in aggregate under the facility agreements. Arrangement fees paid were US$14 million. In addition to the applicable interest rate referred to above, one-off management fees apply to each facility of 1.5 per cent. of total commitments. A fee of US$3 million is also payable under the facility agreement relating to the Abyz and Nurkazgan Projects.

Under the terms of the facility agreements entered into between Samruk-Kazyna and Kazakhmys Finance, the facilities are subject to the Group's net debt to equity ratio not exceeding 3:2. Typical event of default provisions apply, including in the event of (i) cross-default of financial indebtedness obligations by Kazakhmys Finance and (ii) a change of control of Kazakhmys Finance.

As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided the Guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under the $3.0 billion financing line. The Company's liability under the Guarantee is capped at US$1.7 billion of principal plus 85 per cent. of any accrued but unpaid interest and any other duly payable costs and expenses. An indemnity and netting-off agreement was entered into between the Company and Samruk-Kazyna such that any payments under the Guarantee will be netted off against payments to be made by Kazakhmys Finance (the principal borrower in the loan agreements between Kazakhmys and Samruk-Kazyna) under the loan agreements between it and Samruk-Kazyna.

The Company has determined the fair value of the Guarantee to be less than US$5 million. For additional information see "—Critical accounting policies—Determining the fair value of the Guarantee issued by the Group to the China Development Bank in respect of Samruk-Kazyna" below and "Appendix I—Accountants' Report".

MKM revolving structured trade finance facility

On 30 May 2006, MKM Mansfelder Kupfer und Messing GmbH (MKM) entered into a revolving structured trade finance facility agreement with Deutsche Bank for a four-year €200 million facility to finance the repayment of external borrowings and intercompany balances due to Kazakhmys LLC, and to fund trade finance and capital expenditure. This facility was increased to €230 million in September 2006. On 16 June 2009, the facility was restated as a €170 million facility for three years with final maturity in June 2012. Interest is payable on the drawn balance at a rate of EURIBOR plus 3.00 per cent. The loan is secured over the inventories and receivables of MKM. A commitment fee also applies. At 31 December 2010, borrowings under this facility were US$191 million, up from US$157 million at 31 December 2009, as a result of higher working capital requirements due to rising copper prices towards the end of the year. As at 30 April 2011, US$228 million was outstanding under the trade finance facility.

The trade finance facility is subject to MKM maintaining a tangible net worth of at least €140 million and shareholder equity value (including capital stock, minority interests, retained earnings, accumulated losses and intangible assets) of at least €50 million, and its aggregate financial indebtedness not exceeding €200 million. Typical event of default provisions apply, including in the event of (i) specific breaches of account or financial covenants, (ii) cross-default of financial indebtedness obligations by MKM, (iii) change of control of MKM by the Company, (iv) a substantial change in the general nature of MKM's business, and (v) industrial action occurring which leads to the unremedied temporary or permanent stoppage of MKM's business.

Guarantees and Contingent Liabilities

In 2009, the Group secured a US$2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a US$3.0 billion financing line agreed between CDB and Samruk-Kazyna. As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided the Guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under its US$3.0 billion financing line. The Company's liability under the Guarantee is capped at US$1.7 billion of principal plus 85 per cent. of any accrued but unpaid interest and any other duly payable costs and expenses.

The Company has determined the fair value of the Guarantee to be less than US$5 million. For additional information see "—Critical accounting policies—Determining the fair value of the Guarantee issued by the Group to the China Development Bank in respect of Samruk-Kazyna" below and "Appendix I—Accountants' Report".

There has been no materially adverse change in outstanding guarantees or contingent liabilities set forth in "Appendix I—Accountants' Report" since 31 December 2010.

Mortgages and charges

No member of the Group has any outstanding mortgages or charges on its property, plant and equipment that would have a material impact on the financial position of the Group.

Contractual obligations

The following table sets out the Group's material committed contractual obligations and their maturity as at 31 December 2010.

	Less than three months	Three to twelve months	One to five years	More than five years	Total
			(US$ millions)		
Borrowings[1]	(143)	(429)	(1,024)	(554)	(2,150)
Capital expenditures—committed	155	—	—	—	155

(1) Borrowings include expected future interest payments.

In addition to the contractual obligations set out above, the Group has obligations under its subsoil contracts and licences that are calculated as a function of the revenues or expenses associated with such contract or licence. As a condition of its subsoil contracts and licences, the Group must provide an annual amount toward the cost of closure and other rehabilitation for each mine or group of mines. Certain of the contracts require that these amounts be held in a restricted account while others only require that such amounts be accrued. In addition, abandonment programmes are established by the Group to estimate the future liability of site restoration, and such programmes are agreed with the Government. As of 31 December 2010, the Group had a site restoration provision of US$49 million, reflecting the discounted value of the estimated cost of the abandonment programmes.

The Group is also obligated under all of its subsoil contracts and licences to invest in training the local workforce. In about half of its contracts and licences, minimal obligations have been agreed with the Government. In the other contracts and licences, these training obligations are calculated as a function of the revenues or expenses associated with such contract or licence.

The Group estimates that its social and other regulatory expenditure in 2010 in connection with the mandatory compliance requirements under the Group's subsoil use rights was less than US$25 million. Furthermore, in accordance with its subsoil use rights contracts and the relevant regulations, the Group is required to actively explore and develop its subsoil use rights. The related capital and operational cost is however not actively tracked as a separate item in the Group's information systems or management reporting. The Group tracks the capital and operational expenditure to develop its new operations as well as continuing to run its existing operations, which comply with the licence obligations and the Group's operational performance requirements. This information is used in order to demonstrate compliance with the requirements of the relevant subsoil use contracts and regulations. Therefore, the capital and operational element of the subsoil use rights compliance cost cannot be meaningfully extracted as a separate subset of the total capital and operational expenditure. See "Business—Social and Community Programmes", "Risk Factors—The Group must invest in extensive social programmes for the benefit of local communities" and "—Capital expenditures".

Capital expenditures

In 2008, 2009 and 2010, the Group's capital expenditures were US$694 million, US$428 million and US$666 million, respectively (including intangibles such as licences, and mine stripping costs). The Group's committed capital expenditure for 2011 is US$155 million. These funds are expected to come from a combination of operating cash flows and in respect of the specific development projects of Bozshakol and Bozymchak from the US$2.7 billion CDB/Samruk-Kazyna financing facility. Other mid-sized projects will also be funded from this facility. The Group is expecting sustaining capital expenditure to be between US$300 million and US$400 million in 2011.

In 2010, capital expenditure was focused on maintaining output levels at the concentrators, smelters and power stations. To enhance the efficiency of operations, equipment was purchased to maintain the roads at mining operations along with drilling and haulage vehicles to further improve the availability of equipment at the mines. With the sustained improvement in commodity prices during 2010, Kazakhmys Copper expanded its capital expenditure programme compared to the prior year when the priority was on cash conservation. Capital expenditure to maintain Kazakhmys Copper's operations in 2010 was focused on the replacement of mining equipment such as load haul vehicles, roof bolters and drilling machines to increase equipment availability and production efficiency at the mines. Capital expenditure includes the tyre recycling workshop which commenced operations in January 2010 to reduce expenditure on new tyres.

Given Kazakhmys Copper's vertically integrated operations, the sustaining capital expenditure programme in 2010 included expenditure to maintain output at the concentrators, captive power stations and smelters. The capital expenditure on the Zhezkazgan and Balkhash smelters included the overhaul of furnaces and replacement of obsolete equipment to enhance the performance of the facilities. Investments were also made into Kazakhmys Copper's transportation infrastructure with the purchase of locomotives and the repair of railway lines. Kazakhmys Gold's operating mines, Mizek Oxide and Central Mukur, required capital expenditure of US$2 million in 2010 for the purchase of new vehicles, equipment and infrastructure for the mining operations at both sites.

The development of the ore body at the West Nurkazgan mine continued to enable the ramp up of production from the underground mine. The Bozshakol project moved to the feasibility stage in January 2010 and progress on the study of the sulphide ore deposit was made during the year. Kazakhmys Copper has a number of medium-sized mine projects which are progressing through the development stages. See "Business—Expansion Plans and Projects". The majority of Kazakhmys Gold's capital expenditure in 2010 related to the development of the Bozymchak gold-copper deposit, located in Kyrgyzstan. The development project was impacted by the social unrest in the country in the first half of 2010, which delayed the commencement of stripping work and the delivery of equipment to the site.

As a consequence of the economic downturn, capital expenditure during the year ended 31 December 2009 was sharply curtailed from 2008; sustaining capital expenditure was US$143 million lower at US$241 million compared to the prior year, and expansionary and new project capital expenditure was US$123 million lower at US$187 million. Existing supply contracts were also renegotiated in light of the economic environment which also contributed to a reduction in capital expenditure across the year. Major items of expenditure in 2009 included expenditure on the pre-feasibility studies on Aktogay and Bozshakol, expenditure on the Zhezkazgan and Balkhash smelters and power stations to maintain operations, work was carried out to commence production from the new West Nurkazgan underground mine (which commenced mining operations in February 2009), the purchase of essential new machinery at mines to maintain operations, the overhaul at Unit 5 and initial expenditure on the rehabilitation of Unit 8 at Ekibastuz GRES-1, and the continued exploration work within Kazakhmys Petroleum.

During 2008, the Group invested at historically high levels to improve productivity levels and to grow the business, with sustaining capital expenditure US$143 million higher than the prior year at US$384 million. Purchase prices of items of capital expenditure also increased compared to the prior year reflecting the demand for such equipment and the impact of global mining industry inflation. Despite this increase, the level of discretionary capital expenditure was reduced towards the end of 2008 in response to market conditions and the economic downturn.

Excluding the impact in 2007 of acquiring the oil and gas exploration licence within Kazakhmys Petroleum for US$450 million, expansionary and new project capital expenditure for 2008 was US$58 million higher than the prior year at US$310 million. Significant items of capital expenditure during the year included the continued construction of the West Nurkazgan underground mine, expenditure on the Balkhash acid plant, which opened in June 2008, expenditure on pre-feasibility studies for Aktogay and Bozshakol, overhaul and modernisation of Unit 6 within the Ekibastuz GRES-1 power station, which was put back into operation in November 2008, and the continued exploration work within Kazakhmys Petroleum.

Dividend and Dividend Policy

On 17 May 2011, the Company paid the final dividend of 16.0 U.S. cents per share (US$86 million) in respect of the year ended 31 December 2010.

On 5 October 2010, the Company paid an interim dividend of 6.0 U.S. cents per share (US$32 million) in respect of the year ended 31 December 2010.

On 18 May 2010, the Company paid the final dividend of 9.0 U.S. cents per share (US$48 million) in respect of the year ended 31 December 2009.

No dividends were paid by the Company during 2009 in respect of the years ended 31 December 2008 and 31 December 2009.

On 8 May 2008 the Company paid the final dividend of 27.4 U.S. cents per share (US$125 million) in respect of the year ended 31 December 2007.

On 31 October 2008, the Company paid an interim dividend of 14.0 U.S. cents per share (US$75 million) in respect of the year ended 31 December 2008.

For additional information, see “Summary—Dividend Policy”.

Distributable Reserves

As at 31 December 2010, the Company had US$3,265 million in retained earnings available for distribution to shareholders.

Financial Ratios

Profitability ratios

Turnover growth

Revenues of the Group in 2009 decreased by 27 per cent. to US$2,404 million compared to 2008, reflecting the 26 per cent. decrease in the average LME copper price and lower sales volumes of copper products with copper cathode equivalent sales volumes decreasing by 12 per cent. from 388 kt in 2008 to 341 kt in 2009. The Group's revenues for the year ended 31 December 2010 increased by approximately 35 per cent. to US$3,237 million. This increase was driven primarily by the 46 per cent. rise in the average LME copper price, more than offsetting a small decline in the volume of copper products sold in 2010.

Underlying profit growth

Underlying profit for the Group in 2009 decreased 52 per cent. from US$1,134 million in 2008 to US$543 million. Underlying profit for the Group in 2010 increased by 155 per cent. from US$543 million to US$1,383 million. These movements reflect primarily the dramatic change in the global economic outlook, particularly impacting LME copper prices. The LME copper price decline in 2009 was followed by a quick rebound in 2010 which saw revenues and underlying profit for the Group decrease in 2009 and increase in 2010.

Gross margin

Gross margin progressively increased from 51 per cent. in 2008 to 52 per cent. in 2009 and to 56 per cent. in 2010. The Group was successful in increasing its gross margin through the global economic crisis in 2009, despite the sharp reduction in the LME copper prices, due to a series of cost reduction measures such as the suspension of high cost mines at the end of 2008 which reduced ore output in 2009 from 2008, lowering fuel, consumables and transportation costs. The Group suspended the zinc smelter in the Balkhash Region in March 2009 which removed the cost of processing zinc concentrate into ingots. In addition, the Group reduced the volume of purchased copper concentrate reducing raw material costs. These actions, along with the devaluation of the Tenge, in which a significant proportion of the Group's costs are denominated, contributed to a 29 per cent. decrease in cost of sales in 2009.

The increase in costs of sales in 2010 was due to an increase in production costs with rising costs of raw materials, consumables, fuel and greater ore output, which was more than offset by the increase in revenues driven by higher copper prices, thereby resulting in an improved gross margin.

Net profit margin before interest, tax and special items

Net profit margin before interest, tax and special items decreased from 47 per cent. in 2008 to 36 per cent. in 2009, before increasing to 55 per cent. in 2010. The decrease in net profit margin in 2009 was largely driven by the fall in commodity prices, the introduction of the Mineral Extraction Tax and the Group sustaining an US$129 million loss on its copper hedging programme. This compares to a gain recorded on the copper hedging programme in 2008 of US$143 million resulting in a turnaround effect of US$272 million. In addition, the

Group's share of profits from its associate, ENRC, fell slightly despite 2009 being the first full year of equity accounting, driven by a reduction in underlying earnings of ENRC.

The increase in net profit margin before interest, tax and special items margin in 2010 was driven by a combination of factors including a strong increase in gross profit, primarily due to higher copper prices, no hedging losses and an increased contribution from ENRC. The share of profits excluding special items from the 26 per cent. interest in ENRC was US$476 million for the year ended 31 December 2010, representing an increase of 160 per cent. from US$183 million in 2009. The overall increase in margin was sustained despite a 31 per cent. increase in Group administrative expenses excluding special items.

Net profit margin (calculated using underlying profit)

Net profit margin decreased from 35 per cent. in 2008 to 23 per cent. in 2009, before increasing to 43 per cent. in 2010. The decrease in net profit margin in 2009 reflects the movement in commodity prices between the periods and the copper hedging losses incurred in 2009 compared to the gains incurred in 2008.

The increase in net profit margin in 2010 was largely driven by the increase in net profit margin before interest and tax for that year. In addition, the reduction in Kazakhstan corporate income tax rate from 30 per cent. to 20 per cent. had a positive impact on the net profit margin.

Return on equity

The movements on the Group's return on equity largely reflect the movements of its net profit margin explained above.

Return on total assets

The movements on the Group's return on total assets largely reflect the movements of its net profit margin explained above.

Liquidity ratios

Current ratio

The Group's current ratio slightly decreased to 1.3x in 2009 from 2.0x in 2008. This reduction is primarily driven by an increase in current liabilities in 2009 due to the inclusion of US$681 million within trade and other payables related to the prepayment received for the anticipated disposal of 50 per cent. of Ekibastuz GRES-1 LLP to Samruk-Kazyna which completed in February 2010.

The increase of the Group's current ratio to 2.5x in 2010 is largely due to an increase in current assets driven by an increase in liquid funds and a relative decrease in current liabilities. The rise in liquid funds resulted from positive operating cashflows and the proceeds from borrowings drawn under the Group's finance facilities. The decrease in current liabilities resulted from the US$681 million prepayment received in December 2009 referred to above which no longer existed at December 2010.

Quick ratio

The Group's quick ratio has decreased from 1.2x in 2008 to 0.9x in 2009 and increased to 1.9x in 2010. The decrease is due to increased current liabilities in 2009 following the prepayment received for the anticipated disposal of 50 per cent. of Ekibastuz GRES-1 LLP referred to above. The increase in 2010 reflects the rapid increase in current assets excluding inventories, particularly the increase in liquid funds over the period compared to current liabilities due to the prepayment of US$681 million referred to above no longer existing at December 2010.

Stock turnover days

The Group's decrease in stock turnover days from 82 days in 2008 to 76 days in 2009 reflects the inclusion in 2008 of MKM's inventory, which, as an asset held for sale is not included in the 2009 figure. The further reduction to 66 days in 2010 reflects the increase in copper price in 2010 and therefore sales revenues, when compared to 2009, offsetting a rise in raw materials and work in progress.

Debtors' turnover days

The Group's decrease in debtor's turnover days from 26 days in 2008 to 23 days in 2009 is due to the inclusion in 2008 of MKM's trade debtors, which, as an asset held for sale is not included in the 2009 figure. The increase to 30 days in 2010 reflects a rise in trade receivables in 2010 compared to 2009 resulting from greater sales being made in the latter part of 2010 at higher commodity prices.

Creditors' turnover days

The Group's large increase in creditors' turnover days from 34 days in 2008 to 142 days in 2009 reflects the increase in the trade and other payables due to the inclusion of the US$681 million prepayment received for the anticipated disposal of 50 per cent. of Ekibastuz GRES-1 LLP to Samruk-Kazyna, partially offset by the inclusion in 2008 of MKM's creditors, which, as an asset held for sale are not included in the 2009 figure. The Group's creditors' turnover days returned in 2010 to a level closer to that seen in 2008 due to a decrease in trade and other payables as the sale of Ekibastuz GRES-1 completed in the year.

Capital adequacy ratios

Gearing ratios

The Group's gearing ratio, which is the ratio of total debt to total assets, as at 31 December 2008, 2009 and 2010 was 21 per cent., 20 per cent. and 17 per cent., respectively. In 2008, the acquisition of the Ekibastuz GRES-1 power station and the purchase of an incremental holding in ENRC were funded by borrowings, leading to a gearing ratio of 21 per cent. The exclusion from the Group's balance sheet of the assets and liabilities of the discontinued operations, MKM and Kazakhmys Power, along with the receipt of the proceeds from the disposal of a 50 per cent. interest in Ekibastuz GRES-1, the impact of the Tenge devaluation on the Group's total assets, and lower debt levels due to scheduled repayments in 2009, combined to result in a small reduction in the Group's gearing ratio to 20 per cent. in 2009. In 2010, marginally higher debt balances from new project specific borrowings, offset by scheduled debt repayments, and an increase in liquid funds and the equity accounted investment in ENRC, resulting in a gearing ratio of 17 per cent. as at 31 December 2010.

Debt to equity ratio

The Group's debt-to-equity ratio has decreased from 22 per cent. in 2008 to 13 per cent. in 2009 and to 4 per cent. in 2010. This reduction is primarily due to the reduction in net debt due to the reduction in gross debt from 2008 to 2009 and the increase in liquid funds over the period. The liquid funds balance increased in 2009 despite the decrease in cash flows from operations due to the prepayment for the anticipated 50 per cent. sale of Ekibastuz GRES-1. Strong cash flows in 2010 further improved the cash balance while allowing for higher capital expenditure.

Interest coverage

The Group's strong interest coverage, calculated as profit before interest and tax excluding special items over interest expense, has slightly increased from 31.7x in 2008 to 37.9x in 2010. This improvement is primarily due to a 14.8 per cent. increase in profit before interest and tax between 2008 and 2010, and to a lesser extent, a small decrease in interest expense from US$49 million in 2008 to US$47 million in 2010. The interest coverage ratio in 2009 was lower than 2008 and 2010 due to the relatively low net profit before interest and tax, which was primarily a result of the fall in copper prices and copper sales volumes in 2009.

Notes:
Debts are defined as bank borrowings and exclude liabilities associated with assets held for sale. Net debts are defined to include all borrowings net of cash and cash equivalents, excluding assets held for sale and liabilities associated with assets held for sale.

Disclosures about market risk

The following information should be read in conjunction with "Risk Factors". The Group is exposed to changes in foreign exchange rates, commodity prices and interest rates through its commercial and financial operations. Additionally, members of the Group may engage in hedging activities.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices. The principal exposure is to the price of copper, which is the primary product produced by the Group and which is quoted in U.S. Dollars on international markets. The Group is also exposed, to a lesser degree, to the prices of other minerals, including zinc, gold and silver, which are also products produced by the Group. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so. See "—Factors affecting results of operations—Commodity prices" above.

Kazakhmys does not generally hedge its exposure to the risk of fluctuations in the prices of copper or other mineral commodities. Depending on market conditions and other considerations, Kazakhmys may engage, from time to time, in certain hedging activities in order to moderate the effects of the volatility of copper prices. Subject to market conditions, Kazakhmys may choose to engage in hedging activities that expose the Group to certain risks, including the risk of default by its counterparty and the risk that markets move against the Group's hedged positions. See "Risk factors—Risks relating to the Group's operations—Members of the Group may engage in hedging activities from time to time that would expose the Group to losses should markets move against the Group's hedged position".

MKM uses short-term commodity futures to minimise its exposure to changes in the price of copper. As MKM's hedging activities are currently limited, the derivative financial instruments are accounted for initially at market value with any subsequent changes in market value being taken to the income statement.

Foreign currency exchange rate risk

The Group's principal products are commodities that are typically priced by reference to prices in U.S. Dollars and the Group presents its financial information in U.S. Dollars. However, the Group incurs many of its costs in currencies other than the U.S. Dollar, most notably the Tenge and, to a lesser extent, the Euro. The Group typically borrows in U.S. Dollars. For accounting purposes, expenses incurred in currencies other than the U.S. Dollar are converted into U.S. Dollars at the exchange rate prevailing on the date of the transaction. Because many of the Group's expenses are incurred in currencies other than the U.S. Dollar, the Group's expenses may from time to time increase or decrease relative to its revenues as a result of the fluctuations of the relevant exchange rates. This could affect the results of operations that the Group reports in future periods. See "—Factors affecting results of operation—Exchange rates" above. The Group generally does not hedge its exposure to foreign currency risk.

Interest rate risk

The Group is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of U.S. Dollar-denominated debt, as substantially all of its debt both (i) is denominated in U.S. Dollars and (ii) has a variable LIBOR rate. The Group generally does not currently hedge this risk. For information about the Group's instruments that are exposed to interest rate risk, see "Appendix I—Accountants' Report".

Critical accounting policies

In preparing the historical financial information, management has made its best estimates of and judgments as to certain amounts included in the financial information, giving due consideration to materiality. The Group's management regularly reviews and updates all of the estimates it makes. These estimates are based on historical experience and other assumptions that management believes are reasonable in the circumstances, the results of which form the basis for making judgments about the values of the Group's assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions. Management considers the following accounting areas to be those requiring the most subjective and complex judgments. For a summary of all of the Group's significant accounting policies, including the critical accounting policies discussed below, see "Appendix I—Accountants' Report".

Equity accounting of associate

At 31 December 2010, the Group owned 26.0 per cent. of ENRC PLC, a Kazakhstan-based mining company listed on the London Stock Exchange. The investment has been recorded as an associate and accounted for under the equity method in accordance with IAS 28 'Investments in Associates.' IAS 28 states that there is a rebuttable presumption that significant influence exists where an investor holds more than 20 per cent. of the voting power of the investee. Although Kazakhmys does not have representation on the board of ENRC, the Directors believe that the Group has the ability to exercise significant influence by virtue of its substantial shareholding, whereby the Group owns in excess of 25 per cent. of the issued share capital of ENRC and is the single largest shareholder.

This interest confers the Group with certain additional rights and influence under the Companies Act 2006 (CA06) which allows the Group to block special resolutions proposed by ENRC at general meetings. Consequentially, through the provisions of the CA06, the Group is able to participate in policy making processes of ENRC, including participation about distributions such as share buy-backs, which form part of ENRC's capital management strategy.

The Directors are of the view that the Group has influence over the acquisition strategy of ENRC by having the ability to block related party transactions which ENRC has a history of making, where these transactions are over and above the de-minimis exemption in the Listing Rules. Furthermore, the frequency and nature of meetings between the two companies has changed substantially since the Group increased its shareholding above 25 per cent., with matters such as acquisition strategy and the exchange of technical information regarding power generation, taxation and mining safety being discussed. In the Directors' judgement, the Group has the ability to exercise significant influence over ENRC. The Directors therefore believe that it remains appropriate for the Group to equity account for its interest in ENRC in accordance with IAS 28.

Impairment of assets

The Directors review the carrying value of the Group's tangible and intangible assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen can require considerable judgement taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. Where such indicators exist, the carrying value of the assets of a cash generating unit is compared with the recoverable amount of those assets, that is, the higher of net realisable value and value in use, which is determined on the basis of discounted future cash flows. This involves management estimates on commodity prices, market demand and supply, economic and regulatory climates, long-term mine plans and other factors. Any subsequent changes to cash flows due to changes in the above-mentioned factors could impact the carrying value of the assets.

The only significant impairments in the year ended 31 December 2010 relate to discontinued operations with MKM (US$58 million) and Maikuben West coal mine (US$12 million) being written down to their recoverable amounts.

During the year ended 31 December 2009 a series of impairment tests were undertaken, with the following impairment charges being recognised in the consolidated income statement:

- Kazakhmys Gold—an impairment charge was recognised following a decision not to proceed with the Akjilga development project in Tajikistan in the foreseeable future as more economically attractive projects exist within the Group;
- MKM—an impairment charge was recognised to write down the carrying value of MKM to its fair value in light of a number of impairment indications arising during the second half of 2009 following the economic weakness in Europe, MKM's core marketplace; and
- Kazakhmys Power—an impairment charge was recognised to write down the carrying value of Maikuben West to its recoverable amount following the decision to dispose of 50% of the Ekibastuz GRES-1 power station to Samruk-Kazyna.

In 2008, the global economic downturn resulted in management undertaking a series of impairment tests, which gave rise to the following impairment charges being recognised in the consolidated income statement:

- Zinc smelter—an impairment charge was recognised following management's decision to cease production at the Kazakhmys Copper zinc smelter in light of adverse changes in assumptions about future zinc prices and operating costs. Accordingly, the carrying value has been fully impaired;
- Kazakhmys Gold—an impairment charge was recognised following a general change in the long-term strategy of the division, with the outlook for existing mines and development projects being less attractive than originally anticipated at the time of the acquisition; and
- Kazakhmys Copper mining assets—an impairment charge was recognised in relation to the closure of certain mines which are loss making in a period of sustained commodity price weakness and are unlikely, in management's best estimate, to reopen in the foreseeable future.

Determination of ore reserves

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

The Group estimates its ore reserves and mineral resources based on information compiled by competent persons as defined in accordance with the JORC code. A review of the Group's reserves and resources is undertaken on an annual basis by an independent competent person.

In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. Because the economic assumptions used to estimate reserves change from period to period, and as additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;

- depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the unit of production basis, or where the useful economic lives of assets change;

- decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and

- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

Exploration and evaluation expenditure

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

As at 31 December 2010, the most significant asset where the Directors have applied their judgement in the area of exploration and evaluation expenditure relates to Kazakhmys Petroleum and the ongoing exploration and evaluation programme being undertaken. The Directors have considered the following matters in reaching their judgement:

- although the exploration licence of Kazakhmys Petroleum expires in May 2011, the Directors are of the opinion that the licence will be extended based on the positive discussions held to date with the Governmental authorities. A decision on the extension of the exploration licence is expected by May 2011;

- at the current stage in the exploration and evaluation of the existing wells it is too early to conclude on the economic viability of the wells until the test results are analysed and the evaluation is completed; and

- there have been no indications to date that would require the Group to permanently discontinue the exploration programme and the Group remains committed to the project with approval for further capital expenditure included in the 2011 Group budget.

Based on the above considerations, the Directors have concluded that no impairment indicators exist in relation to the exploration and evaluation assets of Kazakhmys Petroleum.

Assets held for sale and discontinued operations

During 2009 the Directors decided to dispose of MKM given the Group's strategy to focus on natural resource opportunities principally in the Central Asian region. This business was therefore classified as an asset held for sale as at 31 December 2008, 2009 and 2010, with the 31 December 2009 balance sheet restated accordingly, and correspondingly as a discontinued operation in the consolidated income statement for the years ended 31 December 2008, 2009 and 2010. A write down was recognised in 2009 as MKM's recoverable amount was re-measured to fair value less costs to sell. The sale of MKM has not been completed within the envisaged 12 month period, however, as negotiations with potential acquirers have taken longer than was originally anticipated principally due to the need to refinance MKM's existing trade finance facility. The Group's strategic objective of disposing of MKM remains the same and discussions continue with a number of interested parties at a price consistent with the previous expectations. Based on these facts, the Directors consider that MKM continues to meet the criteria to be classified as held for sale at the balance sheet date, including, in particular, that a disposal is considered to be highly probable during 2011.

Additionally during 2009, the Directors decided to dispose of the Maikuben West coal mine (within the Kazakhmys Power division) following a change in the long-term strategy of the coal mine as a result of the sale of 50 per cent. of the Ekibastuz GRES-1 power station to Samruk-Kazyna. This business was therefore classified as an asset held for sale at 31 December 2009, and correspondingly as part of discontinued operations in the consolidated income statement for the 2009 financial year. The sale of Maikuben West completed on 17 May 2011 and the Group has not retained any interest.

Determining the fair value of the Guarantee issued by the Group to the China Development Bank in respect of Samruk-Kazyna

During 2010, the Group secured an up to US$2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a US$3.0 billion financing line agreed between CDB and Samruk-Kazyna. As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided the Guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under the US$3.0 billion financing line. The Company's liability under the Guarantee is capped at US$1.7 billion of principal plus 85 per cent. of any interest and any other duly payable costs and expenses. An indemnity and netting-off agreement was entered into between the Company and Samruk-Kazyna ensuring that any payments under the

Guarantee would be netted off against payments to be made by Kazakhmys Finance (the principal borrower in the loan agreements between Kazakhmys and Samruk-Kazyna) under the loan agreements between it and Samruk-Kazyna.

In determining the fair value of the Guarantee in accordance with IAS 39, the right to net off payments made by the Company to CDB under the Guarantee against the balance payable by Kazakhmys Finance to Samruk-Kazyna under the financing line between these parties is governed by English law, under which the Directors have assumed the indemnity and netting-off agreement will be effective in the event of a default by Samruk-Kazyna under its financing line with CDB. The consequence of this assumption is the fair value of the Guarantee is less than US$5 million, an immaterial figure in the context of a financing line available to the Group of US$2.7 billion. Should the indemnity and netting-off agreement not prove successful in a legal or insolvency challenge in Kazakhstan, this would result in a potentially larger liability as the Group would be required to fair value the full US$1.7 billion exposure under the Guarantee.

Determination of excess profits taxation

Following the introduction of new tax legislation on 1 January 2009, the Directors have interpreted the new tax legislation and believe that EPT is not applicable to the Group's operations after this date. This view is supported by discussions and correspondence with the Governmental authorities. The Directors believe the Group's judgements at the current time are reasonable and in compliance with Kazakhstan tax legislation, although there is a risk that the tax authorities will have a different interpretation of tax legislation at the time of a future tax audit.

Provision for environmental pollution charges ("EPC")

The tax audit being conducted for the years 2006 to 2008 within Kazakhmys LLC identified a potential exposure related to EPC resulting from a difference in interpretation on the applicability of the "Law on Foreign Investment" dated 27 December 1994 (the "Law"). The Law grants foreign investors stability, inter alia, over taxes and related legislative matters, for a period of 10 years from the date of investment by a foreign investor or from the commencement of the relevant operating licence being awarded to a foreign investor. In 1999, the relevant state agency confirmed that the predecessor company to Kazakhmys LLC was eligible for stabilisation under the Law, and consequently Kazakhmys LLC applied stabilised EPC rates in earlier years when calculating its EPC liabilities to 2008. The tax authorities have challenged the eligibility of Kazakhmys LLC to apply stabilised EPC rates under the Law.

The Directors have assessed the position of Kazakhmys LLC and made a provision reflecting the probability that a settlement will be negotiated with the tax authorities following agreement being reached on the interpretation of the Law. The risk remains that the tax authorities or courts may take a different position with regard to the interpretation of the Law and its applicability to Kazakhmys LLC, and additional charges may arise over and above the provision recognised in the financial statements as at 31 December 2010.

No material adverse change

The Directors confirm that there has been no material adverse change in the Company's financial or trading position since 31 December 2010.

Copper cathode production in the first quarter of 2011 was 74 kt and production of zinc in concentrate was 36 kt during the same period. Production of silver and gold in the first quarter of 2011 was reduced by the accumulation of work in progress which will be processed during 2011. Kazakhmys Power generated net power of 3,557 GWh during the quarter and the realised tariff rose to 5.38 KZT/kWh. The average realised copper price was US$/t 9,823 over the first quarter of 2011. The Company's net debt from continuing operations declined to US$172 million at 30 April 2011. The Company periodically publishes its quarterly production reports and its interim management statements as per its listing obligations in the U.K. and as part of this process has published its production report for the first quarter 2011 end 31 March 2011 and the related interim management statement (the "IMS"). The full text of the IMS has been made available on the website of the Company and the same has also been included as Appendix II to this Listing Document.

The sale of Maikuben West completed on 17 May 2011. For more information, please see "Financial Information—Discontinued Operations".

Indebtedness statement

The financial indebtedness of the Group in the short term and in the medium to long term as at 30 April 2011 extracted from unaudited management accounts is as follows:

	As at 30 April 2011 (US$ millions)
Current bank debt	—
Current portion of long term debt	685
Other current financial debt	—
Current financial indebtedness	685
Non current bank loans	1,189
Other non current loans	—
Non current financial indebtedness	1,189
Total financial indebtedness	1,874

(1) **Pre-export facility ("PXF")**. As at 30 April 2011, the pre-export facility, which is available to be used for general corporate purposes, was fully drawn in the amount of US$957 million (net of capitalised fees of US$4 million), of which the current and non-current portions were US$520 million and US$437 million respectively. The PXF loan is secured on the value of copper sales contracts with certain designated customers.

(2) **CDB/Samruk-Kazyna facility**. The Group has a US$2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a US$3.0 billion financing line agreed between CDB and Samruk-Kazyna, which is available to fund the Group's major and mid-sized projects. As at 30 April 2011, US$689 million (net of capitalised fees of US$12 million) was drawn under the facility and is included within the non-current portion of financial indebtedness. The facility is secured by way of a guarantee for up to US$2.0 billion issued jointly by the Company and a subsidiary of Samruk-Kazyna in favour of CDB in respect of Samruk-Kazyna's total obligations under the $3.0 billion financing line, including US$300 million which is

not available to the Group. Please refer to "Appendix I—Accountants' Report" for more details on this facility and the related guarantee.

(3) **MKM revolving trade finance facility**. MKM has entered into a €170 million revolving trade finance facility with a syndicate of banks for three years with a final maturity in June 2012. The facility is available to finance MKM's working capital requirements. As at 30 April 2011, US$228 million was outstanding under the facility of which the current and non-current portions were US$165 million and US$63 million respectively. The loan is secured over the inventories and receivables of MKM.

MKM was classified as being held for sale and as discontinued operations as at 31 December 2009 and 31 December 2010 within "Appendix I – Accountants' Report". As a result of this classification, as at these dates MKM's borrowings were disclosed separately on the balance sheet within the caption entitled "Liabilities directly associated with assets classified as held for sale" rather than being included within "Borrowings".

(4) **Revolving credit facilities.** The Group has several revolving credit facilities available up to US$300 million for general corporate purposes and to provide standby liquidity. At 30 April 2011, all these facilities remain undrawn.

(5) **Contingent indebtedness**

CDB/Samruk-Kazyna facility

As part of the financing package, the Company and JSC Kazakhtelecom ('Kazakhtel'), a subsidiary of Samruk-Kazyna, have provided a guarantee to CDB for a maximum of US$2.0 billion of the US$3.0 billion of loans made and to be made by CDB to Samruk-Kazyna (the 'Guarantee'). The Company's liability under the Guarantee is capped at US$1.7 billion of principal plus 85 per cent. of any interest and any other duly payable costs and expenses. Any payments under the Guarantee will be netted off against payments to be made by the respective Kazakhmys company under the loan agreements between it and Samruk-Kazyna. As the Guarantee is several and covers the separate US$300 million loan made by CDB to Samruk-Kazyna (but not lent on for the benefit of the Group), the Company will be liable as to 85 per cent. of that amount (i.e. up to US$255 million) if Samruk-Kazyna fails to make a payment due under that loan to CDB. Further details of the Guarantee are disclosed in "Appendix I—Accountants' Report".

Letter of credit and bank guarantee facilities

The Group has several trade finance lines available for provision of bank guarantees and letters of credit in Kazakhstan totalling US$85 million. At 30 April 2011, US$78 million remained available.

There has not been any material change in the Company's indebtedness or contingent liabilities since 30 April 2011. On 13 June 2011, the Company entered into a non-binding memorandum of understanding with CDB for the provision of a US$1.5 billion loan facility to develop the Aktogay project.

Working Capital

The following table sets out current assets and current liabilities, excluding assets and liabilities held for sale, as at 31 December 2008, 2009 and 2010 and 30 April 2011.

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	(US$ millions)			(unaudited)
Current assets				
Inventories	734	500	585	727
Prepayments and other current assets	238	325	155	199
Income taxes reclaimable	126	4	45	85
Trade and other receivables	233	150	264	161
Investments	32	58	356	556
Cash and cash equivalents	540	903	1,113	918
Total	**1,903**	**1,940**	**2,518**	2,646
Current liabilities				
Provisions	107	17	35	35
Borrowings	498	518	519	520
Trade and other payables	306	935	403	487
Income taxes payable	36	60	33	48
Derivative financial instruments	2	—	—	—
Dividend payable	2	2	2	2
Total	**951**	**1,532**	**992**	**1,092**
Net current (liabilities)/assets	**952**	**408**	**1,526**	**1,554**

As of 31 December 2010, the Company had net current assets of US$1,526 million compared to net current assets of US$408 million as of 31 December 2009. This was primarily due to an increase in trade and other receivables, investments and cash and cash equivalents resulting from greater sales made in the latter part of the year at higher commodity prices leading to higher trade and other receivables coupled with larger cash generated from operations as a result of improved profitability over the year and loan proceeds. Current investments of US$356 million represents cash deposits with a maturity date in excess of three months. This increase was offset by a significant decrease in prepayments and other current assets mainly due to capital expenditure and other purchases made in advance being received during the year and a decrease in trade and other payables, which in 2009 included US$681 million of cash received in advance for the disposal of the 50 per cent. interest in Ekibastuz GRES-1 to Samruk-Kazyna. In 2010, trade and other payables included US$130 million in relation to accruals for social contributions to be made by the Group during 2011.

The Company's net current assets decreased 57 per cent. from US$952 million as of 31 December 2008 to US$408 million as of 31 December 2009. This decrease was primarily due to a decrease in trade and other receivables and inventories, which was partially offset by an increase in cash and cash equivalents and an increase in trade and other payables. The Company's trade and other receivables decreased from US$233 million as of 31 December 2008 to US$150 million as of 31 December 2009 primarily due to decreased trade receivables from lower sales in the latter part of the year. Inventories decreased from US$734 million as of 31 December 2008 to US$500 million as of 31 December 2009 due to decreases in raw materials and consumables, work in progress and finished goods. Cash and cash equivalents increased from US$540 million as of 31 December 2008 to US$903 million as of 31 December 2009 primarily due to an increase in short-term cash deposits, which was partially offset by a decrease in cash at the bank. Trade and other payables increased significantly in 2009 due to a prepayment received for the anticipated disposal of a 50 per cent. share in Ekibastuz, which was partially offset by a decrease in trade payables.

As of 31 December 2010, the Company had non-current assets of US$8,095 million compared to non-current assets of US$6,408 million as of 31 December 2009. This was primarily due to increases in the purchase of plant and equipment and construction in progress of US$711 million as the Group continued to invest in its development projects and increased expenditure on existing mines to maintain current output levels. In February 2010, following the completion of the disposal of the Group's 50 per cent. interest in Ekibastuz GRES-1, the remaining 50 per cent. interest retained by the Group was accounted as investment in joint venture which increased the non-current assets by US$742 million. In addition, as a result of the increased profits of ENRC, the Group's 26 per cent. equity accounted investment also grew compared to 2009.

The Company's non-current assets decreased 27 per cent. from US$8,751 million as of 31 December 2008 to US$6,408 million as of 31 December 2009. This decrease was primarily due to a 47 per cent. decrease in property, plant and equipment from US$3,326 million to US$1,774 million. Following the decision to dispose of a 50 per cent. interest in Ekibastuz GRES-1 and to dispose of MKM in 2009, the respective non-current assets of these businesses were transferred to current assets (assets classified as held for sale) as stipulated by IFRS accounting rules which has resulted in a fall in the value of non-current assets. As a result of the economic downturn and lower profits generated by ENRC the carrying value of the investment in the associate also declined.

The Company is of the opinion that, after taking into account the bank and other facilities available to the Group (as described above), the working capital available to the Group is sufficient for at least 125 per cent. of its present requirements, that is, for at least the next 12 months from the date of this Listing Document.

ENRC

The information in this section, "—ENRC", has been accurately reproduced from the Kazakhmys 2009 and 2010 annual reports. As far as Kazakhmys is aware and is able to ascertain from information published by ENRC, no facts have been omitted which would render the information in this section inaccurate or misleading.

"Kazakhmys has a 26% interest in ENRC PLC, a diversified natural resources group with significant operations in Kazakhstan and an increasing presence internationally. The Group's investment in ENRC had a market value as at 31 December 2010 of $5,431 million. ENRC's vertically integrated operations are structured into six key divisions.

ENRC divisional EBITDA (excluding special items)[1]

$ million	2010	2009
Ferroalloys	1,575	820
Iron ore	1,226	528
Alumina and aluminium	280	88
Other non-ferrous	60	5
Energy	308	213
Logistics	75	40
Corporate	(52)	(66)
ENRC Group	3,472	1,628
Kazakhmys' share of EBITDA of ENRC	903	423

1 The 2010 results for ENRC are unaudited and exclude MET.

The ferroalloys division operates chrome ore and manganese mines from which ferrochrome and other ferroalloys are produced. Output of ferrochrome and ferroalloys was close to capacity throughout 2010 with strong demand for all products. The division's EBITDA in 2010 benefited from an increase in sales volumes and prices, particularly from high-carbon ferrochrome. Inflationary pressures within the division, consistent with those seen elsewhere in the mining industry, saw input material and transportation costs rise on a per unit basis which partially offset the higher realised prices.

The iron ore division mines and processes iron ore into concentrate and pellets. Iron ore extraction volumes were 19% above 2009 levels as the operating mines ramped up to their full capacity supported by robust demand during 2010. Sales volumes of the higher priced iron ore pellets were 30% above the prior year which, together with strong growth in prices for iron ore pellets and concentrate, positively impacted the division's EBITDA for 2010. The division experienced cost pressures from higher input material, energy and labour costs.

The alumina and aluminium division operates two bauxite mines which feed an alumina refinery and an aluminium smelter. Alumina production increased by 2% in 2010 benefiting from the project to expand annual alumina production to 1,700 kt by 2011, and aluminium production was 79% higher as the smelter's annual capacity expanded from 125 kt to 250 kt in May 2010. The division's EBITDA in 2010 reflects the 36% increase in the average realised aluminium price in 2010 and additional aluminium sales volumes when compared to 2009.

The other non-ferrous division includes output from the copper and cobalt operations in the Democratic Republic of Congo ("DRC") 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 the ENRC acquired the remaining 50.5% in August 2010. The first phase of the new cobalt SX/EW plant was commissioned in late 2010 with the second phase to be completed in the second quarter of 2011. The increased production of cobalt metal and copper cathode reflects a full year's contribution of the DRC assets, output from the Chambishi smelter from April 2010 and SMKK. The division's EBITDA benefited from the strong prices for copper and cobalt, with the operating costs of the division expected to improve on a per unit basis as the scale of operations increases.

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. While electricity generation grew by 2% in 2010, third party sales volumes decreased by 41% as the volume of electricity supplied to other ENRC divisions rose due to the ramp up of ferroalloy and iron ore production and the expansion of the aluminium smelter. The division's EBITDA in 2010 grew by 45%, reflecting the higher ceiling tariffs in Kazakhstan, partially offset by higher operating costs.

The logistics division provides transportation and logistics services to ENRC's divisions in Kazakhstan and Africa along with third parties. The total volume of transported goods increased by 5% compared to 2009 with the higher production from both the ferroalloys and iron ore divisions. The 88% increase in the division's EBITDA reflects the higher sales volumes with increased repairs of third party railways, the division's participation in the Government of Kazakhstan's China Gateway project and inclusion of the Zimbabwean based transportation business, SABOT, which supports the non-ferrous division."

"Kazakhmys holds an interest of 26% in ENRC PLC, a diversified natural resources group with significant operations in Kazakhstan. ENRC listed on the London Stock Exchange in December 2007 and had a market capitalisation as at 31 December 2009 of $18.8 billion.

ENRC's operations in Kazakhstan are vertically integrated with the ENRC group comprising six 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 extracted ore is sold to third party producers or internally processed into ferrochrome and other ferroalloys. The division's chrome reserves are substantial with an attractive grade. 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 for sale principally to steel producers. The large scale mines and processing plants are relatively low cost, with the position on the cost curve benefiting from captive power production.

ENRC's alumina and aluminium division is one of the world's largest suppliers of traded alumina in the world. The division operates two bauxite mines which feed an alumina refinery. During 2009, a capacity expansion programme was commenced at the aluminium smelter, which is expected to complete in 2010 and increase the smelter's production capacity to 250 kt per annum.

The energy division operates a coal-fired power station at Aksu, in the northern grid of Kazakhstan. The electricity produced is sold internally to other divisions, with excess power sold to third parties. The division also has sufficient internal coal supply to meet the power plant's needs, with excess coal production sold externally.

The logistics division provides cost effective transportation and logistics services to ENRC's operations in Kazakhstan and to third parties.

The other non-ferrous division incorporates the copper and cobalt assets of CAMEC in the Democratic Republic of Congo and development opportunities in other parts of Africa. In February 2010, ENRC entered into a conditional agreement for the acquisition of Enya Holdings BV which principally holds a 90% interest in Chambishi Metals PLC, a Zambian copper and cobalt producer.

ENRC divisional underlying EBITDA excluding MET

$ million	2008
Ferroalloys	2,789
Iron ore	919
Alumina and aluminium	295
Energy	177
Logistics	50
Other non-ferrous	—
Corporate	(69)
Group	4,161
Kazakhmys' share of EBITDA of ENRC	429

A decline in demand from the stainless steel industry led to lower prices in the ferroalloys division. In response, chrome ore extraction and ferrochrome output were reduced and management took measures to control costs. The second half of 2009 saw strong demand from China and ferroalloy production returned to full capacity by the year end. The decrease in the division's EBITDA in 2009 was primarily price driven.

The iron ore division was affected by weakness in the steel market at the start of 2009, which resulted in iron ore extraction being reduced. Global market demand, led by China, rebounded during 2009 and ENRC's iron ore extraction was at near full capacity in the second half of 2009. The reduction in EBITDA from 2008 was due to a combination of market prices falling and a move by customers from pellets to lower priced concentrate.

Alumina volumes were largely unchanged compared to the prior year due to sales being made under a long-term contract. Aluminium production increased benefiting from a full year at the aluminium smelter's phase 1 capacity of 125 kt. The division was impacted by lower LME aluminium prices, the main factor in the lower 2009 EBITDA, reflecting challenging economic conditions.

Energy production rose in 2009 following the completion of a turbine refurbishment and other maintenance work. Lower demand from the other divisions led to a greater volume of electricity being sold externally compared to the prior year. The second half of 2009 saw internal demand rise as the ferroalloys and iron ore divisions raised output. The energy division also benefited from rising tariffs in Kazakhstan for its external sales. The increase in available generation capacity and higher third party sales contributed to the division's EBITDA growth.

Freight forwarding services provided by the logistics division to external parties declined as internal demand increased. EBITDA was lower in 2009 as revenue was impacted by a reduction in railway repair services provided to third parties and the devaluation of the tenge.

The other non-ferrous division reflects the initial contribution from CAMEC following its acquisition in November 2009.

Kazakhmys adopted equity accounting for its interest in ENRC when the Group owned in excess of 25% of the issued share capital of ENRC in the second half of 2008. Kazakhmys' share of ENRC's EBITDA of $423 million recognised for 2009 represents a full year's equity accounting, but is below the prior year reflecting the lower pricing for ENRC's main products during the first half of 2009."