KAZAKHMYS PLC

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KAZAKHMYS PLC TRADING UPDATE FOR THE YEAR ENDED 31 DECEMBER 2011

This statement provides operational and unaudited financial results for Kazakhmys' managed businesses. The statement excludes the contribution from ENRC PLC, in which Kazakhmys has a 26% shareholding. The consolidated preliminary full year results of Kazakhmys, including the contribution from ENRC, will be released on 27 March 2012.

OPERATIONAL HIGHLIGHTS

- ***Production of major metals in line with targets set at the beginning of 2011***
  - Copper cathode production of 301 kt for the full year
  - Copper cathode equivalent production from own concentrate of 299 kt
  - Silver and gold production ahead of guidance

- ***Kazakhmys Power continued to benefit from strong demand***
  - Power generation at Ekibastuz GRES-1 increased by 15% from prior year
  - Ekibastuz GRES-1 average realised tariff increased 20% from 2010

- ***Growth projects***
  - Bozshakol development commenced in August 2011 and remains on track for first production in 2015
  - Aktogay funding secured and feasibility study to complete this year
  - Long-lead items ordered for Aktogay

FINANCIAL HIGHLIGHTS

- ***Copper benefited from continued strong demand with an average realised price of $8,756 per tonne, an increase of 16% on 2010***

- ***Segmental EBITDA (excluding special items and share of associate ENRC) of $1,959 million***
  - Improved metals prices and contribution from Kazakhmys Power
  - Offset by lower copper sales volumes and increased costs

- ***Net cash costs in line with guidance at 114 USc/lb***
  - Assisted by firm by-product prices
  - Pressure from cost inflation remains

- ***Balance sheet remains robust***
  - Balance sheet returned to net funds position for the first time since early 2008
  - $1.5 billion of funding secured for Aktogay
  - $4.2 billion of long-term funding now secured for growth projects
  - ENRC holding is valued at $3.7 billion as at 29 February 2012

- ***$83 million of shares repurchased to date under the share buy-back programme announced in September 2011***
  - At an average price of 889 pence per share

- ***Full year dividend increased 27% to 28.0 US cents per share ($149 million)***
  - A further significant increase, reflecting strong cash flows
  - $1,636 million returned to shareholders since Listing in 2005

2012 STRATEGY AND OUTLOOK

- ***Focus on key priorities and delivery of strategy***
  - Drive further improvements in health and safety
  - Optimise operational efficiency to resist industry cost pressures
  - Continue delivery of growth projects and refurbishment at Ekibastuz GRES-1

- ***Target production of just under 300 kt of copper cathode equivalent in 2012***

$ million	**Year ended 31 December 2011**	Year ended 31 December 2010
Revenues[1]	**3,563**	3,237
Segmental EBITDA (excluding special items)	**1,959**	1,932
Mining	**1,808**	1,736
Power	**176**	152
Other	**(25)**	44

[1] From continuing operations.

All references to $ refer to US dollars unless otherwise stated.

Oleg Novachuk, Chief Executive of Kazakhmys PLC, said: "Despite economic uncertainty in 2011 the copper market proved resilient, reflecting the continuing strong demand and supply fundamentals. Our output of copper in 2012 should be similar to 2011. Our key challenges will remain to manage costs in an inflationary environment and to further improve health and safety towards our target of zero fatalities. Our growth projects are proceeding well, and as we move closer to delivery, I look forward to reporting on their progress through the year. The long-term outlook for copper is positive and with our growth projects underway and funding in place, we are well placed for the future."

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NOTES TO EDITORS

Kazakhmys PLC is a leading international natural resources group with significant interests in copper, gold, zinc, silver and power generation.

It is the largest copper producer in Kazakhstan and one of the top worldwide with 18 operating mines, 10 concentrators and 2 copper smelters. Kazakhmys Mining operations are fully integrated from mining ore through to the production of finished copper cathode and rod. Total copper cathode equivalent produced in 2011 from own concentrate was 299 thousand tonnes. Production is backed by a captive power supply and significant rail infrastructure.

Kazakhmys Mining produces significant volumes of other metals, including zinc, silver and gold. In 2011, it produced 140 thousand tonnes of zinc in concentrate. The Group is amongst the largest silver producers in the world (13 million ounces produced in 2011).

Kazakhmys Power has a 50% interest in the coal fired Ekibastuz GRES-1 plant, the largest in Kazakhstan with a current capacity of 2,500 MW and which is undergoing a modernisation programme to reach its nameplate capacity of 4,000 MW. Kazakhmys Power also operates the captive coal mines and power stations which supply power to the Mining Division.

The Group is part of the FTSE-100 index of companies listed on the London Stock Exchange and is also listed on the Kazakhstan Stock Exchange (KASE) and Hong Kong Stock Exchange (HKSE). It had revenues from continuing operations of $3.6 billion in 2011 with an operating profit of $1.2 billion. The Group employs around 60,000 people, principally in Kazakhstan. The Group's strategic aim is to optimise its current operations, deliver its major growth projects and to diversify and participate in the development of the significant natural resource opportunities in Central Asia.

FORWARD-LOOKING STATEMENT

Certain statements included in these results contain forward-looking information concerning Kazakhmys' strategy, business, operations, financial performance or condition, outlook, growth opportunities or circumstances in the countries, sectors or markets in which Kazakhmys operates. By their nature, forward-looking statements involve uncertainty because they depend on future circumstances, and relate to events, not all of which are within Kazakhmys' control or can be predicted by Kazakhmys.

Although Kazakhmys believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from those set out in the forward-looking statements.

No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Kazakhmys PLC, or any other entity, and shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the Rules of the UK Listing Authority and applicable law, Kazakhmys undertakes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

TRADING UPDATE

This trading update covers the production and selected unaudited financial results of the Kazakhmys Group for the year ended 31 December 2011. A full consolidated preliminary results announcement will be made on 27 March 2012, after ENRC PLC has announced their results for 2011. The Group has a holding of 26% of ENRC PLC and the final results for Kazakhmys will include a proportionate share of ENRC's earnings, on an equity accounting basis. The results in this statement do not include any share of ENRC's earnings.

CHAIRMAN'S STATEMENT

Summary for the 2011 financial year

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

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

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

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

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

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

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

Optimisation

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

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

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

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

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

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

We are the largest shareholder in ENRC, with a holding of 26%, which had a market value of $3,289 million at the end of 2011, and which has since increased in value to $3,717 million as at 29 February 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividends and shareholder returns

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

In September 2011, we commenced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. To date, we have purchased $83 million, or 1.1% of the shares that were in issue at the start of the buy-back, at an average price of 889 pence per share. The authority for this share buy-back programme expires in May 2012. The Board is mindful of the impact of a share buy-back on the free float and trading liquidity and it is unlikely that this buy-back programme will be completed.

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

The final dividend has been increased by 25% from 2010, benefiting from the cash generated by the business and the strength of the balance sheet. The level of the final dividend also reflects the cash retained by not completing the share buy-back programme. In keeping with our flexible dividend policy, the Board may seek to moderate this payout level as our capital expenditure significantly increases on our projects.

Although we have a flexible dividend policy, cash returns to shareholders since our Listing in 2005 relative to market capitalisation have been amongst the highest of any listed mining company. Including the recommended final dividend, total returns to shareholders since our Listing in 2005 will be $1,636 million, compared to $491 million raised at the time of Listing.

Outlook

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

CHIEF EXECUTIVE'S REVIEW

Summary of results

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

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

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

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

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

Mining Division

Results for 2011

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

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

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

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

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

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

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

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

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

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

Optimisation of our existing assets is a key management focus, made even more significant by the pressure from declining grade and rising input prices. We believe there are also further opportunities to improve the performance of our concentrators, both to raise throughput and increase recovery rates. We will continue to invest in improving working environments, which covers a range of activities including staff transportation, additional roof bolting, shotcreting and improved in-pit equipment maintenance areas, which should ultimately assist productivity and health and safety.

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

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

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

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

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

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

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

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

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

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

Power Division

Results for 2011

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

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

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

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

Outlook

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

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

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

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

Disposals and assets held for sale

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

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

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

Funding

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

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

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

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

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

Copper growth projects and exploration

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

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

on the Bozshakol project, rising from around $120 million in 2011. The spending will include major construction work starting by the third quarter of 2012.

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

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

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

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

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

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

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

OUR OPERATIONS

Review of Kazakhmys Mining

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

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

Kazakhmys Mining production summary

Copper production

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

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

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

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

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

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

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

the higher ore output, and resulted in a 23 kt or 6% reduction in copper metal in ore extracted in 2011 compared to 2010.

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

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

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

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

Zinc production

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

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

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

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

Precious metals production

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

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

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

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

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

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

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

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

Support services summary

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

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

Kazakhmys Mining financial summary

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

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

Revenues

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

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

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

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

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

Revenue from gold bar and doré sales in 2011 was $133 million, down from $219 million in the prior year as the National Bank's export restriction on precious metals prevented any sales of gold from July 2011. Whilst the restriction on the export of gold doré was lifted in August 2011, the restriction on gold bar sales continued for the remainder of 2011. Kazakhmys anticipates that the 69 koz of gold bar held in inventory

at the end of 2011 will be sold at market rates to the National Bank in the first half of 2012 and monthly sales of gold bar to the National Bank will continue thereafter.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital expenditure

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

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

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

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

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

Kazakhmys Mining also has a number of medium-sized mine projects which are progressing through the project assessment stages. The development of the Akbastau and Kosmurun deposits and the associated on-site concentrator moved to the feasibility stage in the second half of 2011. The results from

the drilling work have enabled the 3D modelling of the deposits, and work will be conducted during 2012 to improve the categorisation of the reserves. The initial ore production from the extended Akbastau open-pit mine is expected in 2015, while first output from Kosmurun is expected in 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ekibastuz GRES-1 production summary

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

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

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

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

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

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

Captive Power Stations production summary

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

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

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

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

Kazakhmys Power financial summary

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

[1] Represents 100% of Ekibastuz GRES-1's results until the 50% disposal on 26 February 2010 and 50% for the period to 31 December 2010 and for the twelve months to 31 December 2011.
[2] Represents 100% of Maikuben West coal mine's results until 17 May 2011.

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

Ekibastuz GRES-1 and Maikuben West coal mine

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

[1] Represents 100% of Ekibastuz GRES-1's results until the 50% disposal on 26 February 2010 and 50% for the period to 31 December 2010 and for the twelve months to 31 December 2011.
[2] Represents 100% of Maikuben West coal mine's results until 17 May 2011.

Revenues

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

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

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

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

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

EBITDA (excluding special items)

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

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

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

escalating and as the volume of maintenance work increased to maintain the higher utilisation of the power station.

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

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

Capital expenditure

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

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

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

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

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

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

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

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

Captive Power Stations

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

Revenues

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

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

EBITDA (excluding special items)

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

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

Average cash cost

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

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

Capital expenditure

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

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

Other businesses

Review of Kazakhmys Petroleum$ million	**2011**	2010
EBITDA (excluding special items)	**(1)**	(1)
Capital expenditure (expansionary)	**20**	37

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

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

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

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

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

MKM financial summary

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

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

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

MKM successfully grew GVA in 2011 for all three of its product sections, despite the challenging economic conditions in Europe reducing sales to certain countries. MKM recorded a 5% growth in sales volumes to Germany, its major market, and management pursued a strategy of focusing on higher margin products leading to an increase of 7% in GVA per tonne compared to 2010. The performance of MKM was achieved despite working capital restrictions in the first half of 2011 as the copper price traded above $9,000 per tonne and, due to MKM's risk management policies, orders were rejected where insufficient debtor insurance was available.

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

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

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

FINANCIAL REVIEW

Income statement

A summary of the consolidated income statement is shown below:

$ million	**2011**	2010
Continuing operations		
Revenues	**3,563**	3,237
Operating costs (excluding depreciation, depletion, amortisation, MET and special items)	**(1,791)**	(1,529)
EBITDA from subsidiaries (excluding special items)	**1,772**	1,708
EBITDA from joint venture (excluding special items)	**154**	86
Segmental EBITDA (excluding special items) from continuing operations	**1,926**	1,794
Less: interest and taxes of joint venture	**(26)**	(28)
Special items:		
Less: additional death and disability benefits obligation charge	**(146)**	-
Less: impairment charge against property, plant and equipment	**(11)**	(13)
Add: impairment reversal against mining assets	**7**	-
Less: major social projects	**-**	(130)
Add: provisions released against inventories	**19**	18
Less: MET	**(280)**	(236)
Less: depreciation, depletion and amortisation	**(264)**	(268)
Operating profit	**1,225**	1,137

Revenues and EBITDA (excluding special items)

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

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

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

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

Administration costs (excluding depreciation and special items) were 15% higher than the prior year driven by inflationary pressures and a number of specific items incurred in 2011. The Group incurred costs associated with listing on the Hong Kong Stock Exchange in June 2011, legal expenses and fines and penalties relating to tax claims. The impact of these items was partially offset by the release of a provision for fines and penalties associated with an excess profits tax claim which the Group successfully

defended in the courts. An additional charge was incurred for the death and disability benefits obligation at Kazakhmys Mining, where a change in legislation saw the entitlements for employees receiving payments for work-related injuries increase significantly. The potential future cost, which is wholly attributable to the change in legislation, is $146 million and has been treated as a special item. A further $26 million has been charged for the interest component of the future obligations and revisions to the actuarial assumptions applied in determining the obligation which has not been treated as a special item.

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

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

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

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

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

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

Operating related special items:
2011

- the Government of Kazakhstan enacted new legislation which significantly increased the entitlements payable to current and former employees who suffer a work-related injury. Based on a reassessment of the potential future costs associated with meeting this additional death and disability benefits obligation, Kazakhmys Mining has provided for a further $172 million in 2011, of which $146 million relates solely to the impact of the changes in the legislation and has been treated as a special item;

- impairments included as special items are:

  - Property, plant and equipment – a charge of $11 million which primarily relates to the impairment of administrative land and buildings within Kazakhmys Mining which are not in use;

  - Mining assets – a credit of $7 million which mainly relates to a reversal of impairment provisions held against mining assets which were considered uneconomic in prior years and which are now being actively prepared for future extraction due to higher commodity prices; and

  - Inventories – a $19 million release of an impairment provision held against minor by-product inventories within Kazakhmys Mining to reflect improved market conditions for those by-products.

2010

- in the first half of 2010, the Group committed to fund major social projects in Kazakhstan at a cost of $130 million. The charge represented the full cost of the projects;

- in 2008, Kazakhmys Mining recognised an impairment loss in respect of stockpiled ore for which processing was considered uneconomic at the prevailing commodity prices. During 2010, the stockpiles were partially processed as commodity prices improved, and, as a result, an $18 million impairment provision previously recognised was released; and

- in 2010, social assets constructed by Kazakhmys Mining as part of the Group's social programme of $13 million were impaired as these assets were not deemed to be part of the cash generating unit of Kazakhmys Mining.

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

Reconciliation of EBITDA (excluding special items) by operating segment

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

Following the restructuring of the Group's operating assets in Kazakhstan undertaken during 2011, the Group's operating segments have changed from those previously reported at 31 December 2010. The Group is now managed in four separate business units: Kazakhmys Mining, Kazakhmys Power, MKM and Kazakhmys Petroleum, until its disposal in December 2011. Kazakhmys Gold is included within Kazakhmys Mining and the Group's captive power stations, previously within Kazakhmys Copper, are now included within Kazakhmys Power. The 2010 comparative figures have been presented on a consistent basis with the results for the year ended 31 December 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the second half of 2011, the Directors announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. In 2011, 5.6 million shares were purchased, with a further 0.4 million purchased in early 2012, at a total cost of $83 million, representing 1.1% of the Company's shares in issue at the commencement of the programme. Following the appreciation of the Company's share price in early 2012, the buy-back programme has not made further share purchases. The Company's authority for this share buy-back programme expires in May 2012, and it is unlikely the announced programme will be completed in full.

The Directors recommend a final dividend for 2011 of 20.0 US cents per share, which together with the interim ordinary dividend of 8.0 US cents per share, gives a total full year ordinary dividend of 28.0 US cents per share (2010: 22.0 US cents per share), based on the earnings for 2011. The total dividend reflects an approximate 12% payout ratio of the Group's full year Underlying Profits as adjusted for the removal of ENRC's and Ekibastuz GRES-1's equity accounted earnings but including dividends received from ENRC during the year, plus an additional 5.0 US cents per share or $26.5 million. The additional 5.0 US cents per share to the 12% payout ratio has been recommended by the Directors taking into account that the announced buy-back programme is unlikely to be completed in full and the Group retains its financial strength with available cash and long dated debt facilities in place. The exchange rate to be applied to convert the dividend into UK pounds sterling is £0.63384 to the US dollar and to convert the dividend into Hong Kong dollars is HK$7.75487 to the US dollar. This is based on the average exchange rates for the five business days ending two days before the date of this announcement.

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

Cash flows

A summary of cash flows is shown below:

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

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

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

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

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

- inventory increases at Kazakhmys Mining of $164 million as there was a build-up of gold bar due to no sales taking place in the second half of the year following the restriction on exports imposed by the National Bank in July 2011, and also an increase in copper finished goods inventories of 6 kt across the year. In addition, reflecting rising input costs, the cost of raw material inventories has also risen since December 2010;

- an increase of $77 million in prepayments and advances, attributable to rising expenditure on the Group's ongoing development projects, including VAT that can only be reclaimed once revenue generating activities commence at these projects;

- lower trade receivables at Kazakhmys Mining of $87 million reflecting the timing of sales and receipts;
- a significant increase of $172 million in Kazakhmys Mining's obligations for death and disability benefits, mainly related to the accrual for payments to current and former employees for work-related injuries following amendments to the legislation in Kazakhstan; and
- a decrease at MKM in the value of inventory of $98 million and trade receivables of $12 million driven by the lower copper prices experienced in the second half of 2011, partially offset by lower accounts payable of $30 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance sheet

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

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

[1] Excludes MKM and Kazakhmys Power.

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

Gross debt of continuing operations of $1,893 million is $74 million higher than the $1,819 million at 31 December 2010, as the draw down of an additional $600 million during the year ($592 million net of fees)

under the $2.7 billion CDB/Samruk-Kazyna financing facilities was offset by the continued monthly repayment of $44 million under the PXF. These monthly repayments have reduced the amount outstanding under the PXF by $525 million during the year to $612 million. Of the funds drawn under the CDB/Samruk-Kazyna financing facilities, $1,000 million has been allocated to the Bozshakol project and $300 million for the development of the Bozymchak project, the gold/copper deposit in Kyrgyzstan and other mid-sized projects.

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

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

In order to manage counterparty and liquidity risk, surplus funds within the Group are held predominantly in the UK and funds remaining in Kazakhstan are utilised mainly for working capital purposes. The funds in the UK are held primarily with major European and US financial institutions with minimum ratings of Standard & Poors 'A-' and Moodys 'A3' and 'AAA' rated liquidity funds. At 31 December 2011, $1,743 million (2010: $1,292 million) of cash and short-term deposits were held in the UK, with $169 million (2010: $177 million) being held in Kazakhstan.

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

Discontinued operations

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

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