KAZAKHMYS PLC

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Company Number: 5180783

27 February 2014

# KAZAKHMYS PLC AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

## OPERATIONAL HIGHLIGHTS

- Copper cathode equivalent output at top end of guidance
  - Production of 294 kt, supported by an increase in ore extraction and grades

- All major by-product output above full year targets

## FINANCIAL HIGHLIGHTS

- Group revenues of $3,099 million
  - Impacted by lower metals prices but benefiting from sale of additional copper material

- Cash cost ahead of target at 328 US cents per pound
  - H2 unit costs below H1 with annualised cost savings of $120 million

- Balance sheet year end net debt of $771 million
  - Net funds of $478 million post receipt of Ekibastuz GRES-1 proceeds, pro forma

## GROWTH PROJECTS

- Bozshakol remains on track for first production in 2015

- Proposed purchase of third major growth project
  - Consistent with policy of moving output to large scale, low cost, open pit mines

## 2014 STRATEGY AND OUTLOOK

- Copper output to be in line with 2013 guidance of 285 to 295 kt

- Maintain control of operating costs and sustaining capital expenditure
  - Target cash cost range of 315 to 330 US cents per pound

- Potential restructuring
  - Group reviewing the disposal of mature assets

| $ million (unless otherwise stated) | 2013 | 2012 |
|---|---|---|
| Revenues [1] | **3,099** | 3,353 |
| Segmental EBITDA (excluding special items) [2] | **873** | 1,364 |
| Group EBITDA (excluding special items) [3] | **1,149** | 1,912 |
| (Loss)/profit before taxation from continuing operations | **(681)** | 151 |
| Underlying Profit | **190** | 492 |
| EPS: | | |
| Basic and diluted ($) | **(3.96)** | (4.33) |
| Based on Underlying Profit [4] ($) | **0.37** | 0.94 |
| Free Cash Flow [5] | **(171)** | 85 |
| Cash cost of copper after by-product credits [6] (USc/lb) | **222** | 174 |

1 From continuing operations only.
2 Includes MKM's EBITDA (excluding special items) for the period up to its disposal on 28 May 2013 and Kazakhmys' share of EBITDA (excluding special items) of Ekibastuz GRES-1 for the period to 5 December 2013.
3 Comprises Segmental EBITDA and Kazakhmys' share of EBITDA (excluding special items) of ENRC for the period to 24 June 2013 based on the ENRC unaudited results for six months to 30 June 2013. Reconciliation of Group EBITDA (excluding special items) to (loss)/profit before finance items and taxation is found in note 3(a)(ii). In 2012, EBITDA (excluding special items) was redefined; please refer to the EBITDA section of the Financial Review.
4 Reconciliation of EPS based on Underlying Profit is found in note 10(b).
5 Net cash flow from operating activities before capital expenditure and non-current VAT associated with expansionary and new projects, less sustaining capital expenditure on tangible and intangible assets.
6 Kazakhmys Mining cash operating costs excluding purchased concentrate and mineral extraction tax less by-product revenues, divided by the volume of copper cathode equivalent sales.

Oleg Novachuk, Chief Executive, said: "This has been a year of significant change for Kazakhmys. The disposal of our non-core assets has significantly strengthened our balance sheet and allows us to focus fully on optimising the existing copper operations and delivering our major growth projects. Tight operational control resulted in production, sales volumes and costs all being ahead of target, greatly assisting cash flow, which will remain a key focus in 2014. We continue to seek further operational improvement and are also considering a possible broader restructuring which would create a better positioned and more cash generative group, moving us towards our objective of output dominated by large scale, low cost, open pit mines."

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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 16 operating mines, 8 concentrators and a copper smelter. Kazakhmys Mining's operations are fully integrated from mining ore through to the production of finished copper cathode and rod. Total copper cathode equivalent output from own ore was 294 kt in 2013. 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 2013, it produced 134 kt of zinc in concentrate. The Group is amongst the largest global silver producers with output of 14 Moz in 2013.

Kazakhmys Power operates three captive power stations which supply electricity to Kazakhmys Mining and third parties. In 2013, net power generated by captive power stations was 5,723 GWh.

The Group is listed on the London Stock Exchange, the Kazakhstan Stock Exchange (KASE) and the Hong Kong Stock Exchange (HKSE). It had revenues from continuing operations of $3.1 billion in 2013 and a Group EBITDA of $1.1 billion. The Group employs around 56,000 people, principally in Kazakhstan. The Group's strategic aim is to optimise its current operations, deliver its major growth projects and to 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.

## ANNUAL GENERAL MEETING

The 2014 Annual General Meeting will be held at 12.15pm on Thursday 8 May 2014 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom.

The 2013 Annual Report and Accounts and details of the business to be conducted at the Annual General Meeting will be mailed to shareholders and posted on the Company's website (www.kazakhmys.com) in early-April 2014.

## CHAIRMAN'S STATEMENT

In March 2012, my predecessor Vladimir Kim described the development of a new Kazakhmys focused on copper production from a core of large-scale open pit mines. The new Kazakhmys will provide both a safer operating environment for our workforce and improved financial returns to our shareholders.

During 2013, we carried out some significant actions which help take us towards this vision with the disposal of non-core assets and the continued development of our major growth projects. However, there is still work to do and 2014 will be a critical year in this transformation.

In 2013, we were met by lower metals prices and rising costs. Management successfully took action to reduce costs which is reflected in the financial results, but these conditions highlighted the challenges at our current operations. Alongside our optimisation programme, we initiated an asset review in order to improve the profitability of our existing copper assets and it became clear that more significant and structural change is required.

Health and safety remains a key focus for the Board. I am disappointed to report that there were 18 fatalities in 2013. Improvements continue to be made and the positive impact of several measures introduced in the prior year has proved sustainable through 2013, but we remain a long way from our target of zero fatalities. All fatalities are unacceptable and avoidable and the Board will continue to demand significant improvement in health and safety.

Over the past 12 months we sold our three non-core businesses. Completing these transactions will realise a total of $2,179 million in cash and will significantly benefit our balance sheet.

The first disposal was MKM, a downstream copper business based in Germany. MKM was a profitable business, but did not fit with our focus on mining in Central Asia. The disposal was completed in May 2013 for €42 million in consideration, including €12 million on a deferred basis. We also received a dividend of €10 million from MKM during the year.

Kazakhmys was the largest single shareholder in ENRC, with a holding of 26%. ENRC, which is principally involved in mining bulk metals in Kazakhstan, had seen its share price weakened by a number of factors and in April 2013 a consortium was formed by the Government of Kazakhstan and the three founder shareholders of ENRC, with the intention of buying the outstanding shares of ENRC and taking the company private. The consortium offered ENRC shareholders a mixture of cash and Kazakhmys shares, the latter coming from the Government's holding in Kazakhmys.

The Board of Kazakhmys was concerned about corporate governance and the financial outlook for ENRC. With the Board's recommendation, and following the approval of independent Kazakhmys shareholders, we accepted the offer for our 26% holding in ENRC. In exchange for our holding we received $875 million in net cash proceeds and 77 million Kazakhmys shares, which have been cancelled.

The performance of our investment in ENRC was disappointing, but this transaction was considered the best available option to realise the value of such a large and illiquid stake. The cancellation of the Kazakhmys shares received, representing 14% of our shares in issue at that time, has significantly changed the share register and Kazakhmys now has a majority free float of 57%. We are the first of the newly listed resource companies on the London Stock Exchange to have reached a majority free float. The reduction of the shares in issue will enhance future returns to shareholders.

In early 2013, we announced that we were looking at the potential disposal of our 50% holding in Kazakhstan's largest power station, Ekibastuz GRES-1. The disposal of Ekibastuz GRES-1 was approved by shareholders shortly after the year end and will result in net proceeds of $1.25 billion, compared to an effective purchase price for the assets sold of $580 million.

The refurbishment of Ekibastuz GRES-1 was progressing well, but the sale was considered to be in the best interest of shareholders. With the profits from Ekibastuz GRES-1 being reinvested back into its refurbishment, dividends to Kazakhmys were deemed unlikely in the medium term and there was uncertainty over the tariff regime beyond 2015.

These three disposals allow management to focus solely on our core copper business, increase the efficiency of our existing assets and deliver our growth projects.

Over the past few years, a combination of declining grades, cost inflation and lower commodity prices has put significant pressure on our profitability and cash generation. In response to the pressure on margins and the future spend on the Group's major growth projects, we commenced an optimisation programme and asset review, including a re-assessment of the Group's integrated model. The objective was to achieve sustainable positive cash flow from our existing operations focusing on profitable production rather than volume targets.

Actions to improve efficiencies in the second half of 2013 resulted in annualised net cost savings of approximately $120 million. There were also reductions in sustaining capital expenditure and these measures will be continued and extended in 2014.

The Board believes that a number of mature assets, primarily in the Zhezkazgan and Central Regions, will struggle to meet their own ongoing investment needs and contribute to overall cash flow. The prospect of successfully optimising and investing in these assets may be limited whilst they remain under the Group's ownership, and they do not fit within the Group's strategy of production dominated by large-scale open pit mines.

The Group is therefore reviewing the feasibility of separating these assets into a separate corporate entity with a view to potential disposal. Vladimir Kim has indicated he will consider creating a vehicle, owned by him personally, to hold these assets. His knowledge of the assets, understanding of the operating environment and standing in Kazakhstan makes this the most feasible route to exit from these operations. Discussions on such a transaction are at a preliminary stage. Should this disposal proceed, it would be reviewed by the independent Directors of the Board, and as a related party transaction, be subject to the approval of independent shareholders.

A restructuring of this nature would base the Group on the existing assets in the East Region, along with Bozymchak and the major growth projects. The East Region contains four higher grade mines which combine well with the development period of the major projects.

Further statements on the progress of the proposal will be made as and when appropriate.

The delivery of our two current major growth projects at Bozshakol and Aktogay is central to the Group's transformation and we have implemented some significant changes at the projects during the year.

Most of the critical development targets at Bozshakol have been met to date, but there were concerns over the principal contractor's ability to maintain satisfactory progress.

In December 2013, we appointed Non Ferrous China as a second contractor at Bozshakol. The appointment of Non Ferrous China gives the Board greater confidence that the timetable will be maintained and that the project will commence as planned in 2015. There is additional cost of $350 million arising from the change, but this should secure the start-up date, and hence the timing of cash flow generation from the project, thereby avoiding the greater loss of value which would have resulted from a delay.

At Aktogay we are replacing the previous single principal contract with several smaller contracts. There will be a change to the overall project cost, which will only be finalised once all the tenders are complete. We have maintained a start date of 2015 for commencing extraction from the oxide section, but are moving first production from the sulphide section to 2017, spreading the expenditure on the projects.

During 2013, a major copper project, Koksay, became available in Kazakhstan. Koksay is consistent with our strategy of future production from a small group of large scale, low cost open pit mines, is in our key operating area and should provide attractive long-term returns. The Board has accordingly approved the potential purchase of this project for $260 million, of which $65 million will be deferred. Significant development expenditure will not be incurred until after Bozshakol has commenced production. The transaction is intended to be completed shortly.

The disposal of the non-core assets will reduce strain on the balance sheet. At the year end, there was net debt of $771 million, equivalent to net funds of $478 million following the receipt of the Ekibastuz sale proceeds on a pro forma basis. However, holding three major projects with their associated capital spend creates specific risks and the Board is considering partnering options on the major growth projects in order to share some of the risk and reduce the capital requirements.

The performance of our share price in 2013 has been disappointing. The mining sector as a whole has been out of favour, with investors seeking companies that have high levels of cash generation and capacity for dividends, which has encouraged the cancellation of projects and the reduction of capital expenditure across the industry. In addition to the general sector trend, Kazakhmys shares have been impacted by our reduced profit margin, concern about the profitability of some of our assets and the performance of our holding in ENRC.

The Board believes that the long-term success of Kazakhmys is dependent on improving the cash generation of the underlying business and delivering the major growth projects. This will provide the best return for shareholders and greater stability for all stakeholders. The share price will always be impacted by the performance of metals prices, over which we have no control, but the substantial changes we are undertaking should create significant shareholder value.

Our dividend policy, as set out at Listing, is for the Board to consider the cash generation and financing requirements of the business and then recommend a suitable dividend. This policy maintains flexibility on dividend payments, which is appropriate given the underlying cyclicality of a commodity business. Given the current low level of cash generation from our existing assets, the ongoing asset review and the expenditure on our growth projects, the Board does not recommend a dividend at this time.

Since Listing, Kazakhmys has returned a total of $2,095 million to shareholders, in ordinary and special dividends and share buy-backs. Such a level of return compares favourably within the sector. When the outcome and delivery of the restructuring is clearer, and as Bozshakol moves into commissioning, then returning funds to shareholders will be a key consideration.

In my first year as Chairman I should like to thank my fellow Directors and senior executives for their support. In particular, I should like to thank Vladimir Kim for his assistance in the handover of the Chairman’s role and for his continued support and commitment to Kazakhmys. My appointment as independent Chairman ensures that the Group now fully complies with the requirements of the UK Corporate Governance Code. The Board has always placed a high emphasis on good governance. Governance is not a simple task, but a continuous journey and one to which we remain committed.

It is clear that 2014 will be a demanding but significant year for Kazakhmys. We firmly believe there is a positive outlook for copper, a metal which is fundamental to economic development and which has a constrained supply in the long term. The new Kazakhmys, of predominantly large scale, low cost, open pit mines in Central Asia, will be in a strong position to take advantage of these markets and I look forward to updating shareholders as we progress through the year.

## CHIEF EXECUTIVE'S REVIEW

This review covers a period of significant change. We delivered three corporate transactions in 2013, allowing us to focus on our copper mining business in Kazakhstan. We are likely to see further transformation in 2014, moving towards our strategic goal of copper production from a core of large scale, low cost, open pit mines.

Regardless of changes in the business, we remain focused on improving our health and safety performance. In 2013, there were 18 fatalities. The progress we are making is slower than we would like, but encouragingly we are seeing improvements in some of the identified core risk areas. Fatalities resulting from rock fall have reduced compared to the previous year and we are seeing better risk assessments at our underground operations. We will continue to focus on improving our performance in other hazard areas, for example in transport safety, working at heights and when handling heavy machinery.

In 2013, we produced 294 kt of copper cathode equivalent from own material. Finished copper output was slightly higher than the previous year and was at the top of the range we set at the start of 2013. We successfully targeted additional copper output, in order to mitigate costs, and we will maintain this strategy in 2014. This was the sixth consecutive year in which we met our production targets and I would like to thank my colleagues for their hard work in achieving this.

Within our principal by-products, output of zinc and gold both declined through a combination of lower ore output and grade, although in both cases the decline was less than anticipated and production remained ahead of target. Silver output had a strong year, benefiting from a release of work in progress and higher recovery rates.

Sales of copper products at 312 kt were 16 kt higher than production, lifted by a reduction in finished goods and the processing of work in progress arising from the suspension of the smelter at Zhezkazgan.

Copper production in 2014 will be in line with the guidance for 2013, or between 285 and 295 kt. Zinc and silver output will decline to around 120 kt and 11,000 koz, respectively. Gold will increase to 125 koz, assisted by the commissioning of Bozymchak.

Metals prices remained under pressure in the soft economic climate. Copper continued to perform relatively well, with the LME cash price averaging $7,328 per tonne in 2013, 8% below the 2012 average. Precious metals were considerably weaker, with average LBMA gold and silver prices declining by 15% and 24%, respectively, as concerns over global financial instability retreated and lessened their attractiveness as 'safe havens'.

Mining revenue declined by 9% to $3,058 million, due to lower metals prices, partly offset by higher copper sales volumes. Revenue in 2012 was assisted by additional gold sales which were held over from 2011.

Cash management was a key focus of attention in 2013, seen in both operating costs and capital expenditure. Cash operating costs increased by 7%, and were impacted by higher sales volumes. This level of increase was an achievement given the higher volumes of ore mined and processed, the salary increases awarded in mid-2012 and some inflation in input costs. Evidence of the action taken is seen in the reduction in costs in the second half of the year compared to the first six months of 2013.

Gross unit cash costs benefited from the additional sales volumes and declined to 328 US cents per pound. Excluding these additional volumes, the gross unit cash cost was 334 US cents per pound, in line with 2012, and below both the initial target for the year of 347 to 360 US cents per pound and the revised mid-year target of 337 to 347 US cents per pound.

Costs in 2014 will benefit from the devaluation of the tenge on 11 February 2014, although offset by some consequent inflationary pressure. We will also incur additional taxes on salary costs, and higher refining charges for the processing of copper concentrate sold to China. The refining charge is deducted from the sales price and reduces revenue, but we will include it in our unit cost calculation in keeping with industry practice. The target range for costs in 2014 will therefore be 315 to 330 US cents per pound.

The combination of lower revenue and increased costs in 2013 led to a 39% decline in EBITDA for the Mining Division to $705 million.

Due to lead times, capital investment can be less flexible than operating expenditure, however, sustaining capital expenditure in the Mining Division in 2013 was reduced to $422 million, including some one-off costs, compared to $603 million in 2012. In 2014, we will maintain control over sustaining capital expenditure with spend of between $350 and $450 million.

We suspended activity at several mid-sized projects, with continuing work focused on studies to lengthen the life of Artemyevsky mine. Development capital expenditure will be around $30 million in 2014. The main emphasis for capital expenditure will be on the major growth projects, discussed below, at $750 to $950 million for Bozshakol, $450 to $650 million for Aktogay and $10 million for Koksay.

Group EBITDA was $1,149 million in 2013. Due to their disposal, MKM, ENRC and Ekibastuz GRES-1 are only included for part of the year. Their disposal and related financials are covered extensively in the Financial Review.

In the circular distributed to shareholders on 12 July 2013, we stated our intention to manage the Group's existing core copper operations to generate sustainable positive cash flow. The actions we have taken to reduce costs and sustaining capital expenditure are positive, but as set out in the Chairman's Statement it has become apparent that more significant changes are required.

The restructuring being reviewed will result in the operations of the Group consisting of the four mines in the East Region, along with the three associated concentrator facilities, Bozymchak mine in Kyrgyzstan, and the major growth projects. East Region accounts for around 28% of our copper in concentrate output, 41% of gold, 36% of silver output and all of our zinc in concentrate. It includes around 12% of the Mining Division workforce and 11% of total ore output, with an average copper grade of 2.41%.

Although modest in output, the cash generation of the East Region assets will put the Group in a strong position to move through the development phase of the major growth projects.

It is being considered that the mines in Zhezkazgan and Central Regions, along with captive power, smelting and refining will become part of a separate corporate entity. With further investment and potential Government support, the life of these mines could be extended but this is challenging with the Group's current funding capability and the returns are unlikely to be compatible with the demands of a listed company and external shareholders. We have recognised an impairment charge of $670 million, largely due to the challenging economic outlook for certain assets, particularly in the Zhezkazgan Region.

A restructuring of this nature would be highly complicated, especially for a Group that has been so fully integrated. The division and management of central and shared services will require careful planning in order not to disrupt production and to ensure a stable base for both entities in the future.

In 2013, with the suspension of our smelter in Zhezkazgan we recommenced the sale of copper in concentrate and increased the proportion of our sales to China. In 2014, around 40% of our copper sales will be in the form of concentrate. Copper in concentrate is sold at a lower price to cathode, reflecting the cost of smelting and refining to the customer, but this reduction is offset by removing the operating costs and sustaining capital expenditure of the smelter complex.

The completion of our major growth projects is central to the success of Kazakhmys, providing long-term supply from large scale, low cost, open pit mines. At Bozshakol, several key milestones were met in 2013, with the delivery of the main milling equipment, the enclosure of the main processing building ahead of the winter period and some major support infrastructure and earthworks.

As previously mentioned, we appointed a second contractor at Bozshakol, which led to an increase in the overall budgeted cost for the project of around $350 million, however, the appointment of the additional contractor will provide greater assurance that the project remains on track for first production in 2015.

Aktogay has been covered in the Chairman's Statement, however, in 2014 we will continue with the infrastructure activities, bulk earthworks and preparations for buildings.

The Chairman's Statement mentions the proposed acquisition of Koksay, a third major project, which will come into development after the existing two projects have been commissioned. Koksay is in southeastern Kazakhstan, close to the Chinese border and is well located for existing infrastructure. It has a total resource of around 3,440 kt of copper, at an average grade of 0.48% and the deposit also contains silver and gold. In 2014, expenditure will be restricted to around $10 million, principally on additional drilling. No significant expenditure will be incurred until the major projects are producing.

At 31 December 2013, the Group had net debt of $771 million. This is before the receipt of $1.25 billion for Ekibastuz GRES-1. Spending on the growth projects in 2013 was lighter than anticipated, although this expenditure will transfer into 2014 and 2015. In 2014, we anticipate total capital spend of up to $2 billion, of which up to $1.6 billion is for the major projects.

The management of cash will continue to be a key focus for management. Our growth projects are securely funded from our two long-term debt facilities. The disposal of our non-core assets will greatly strengthen the balance sheet. The funds held will reduce the future borrowing requirements of the Group and could be used to repay existing facilities if so required.

Market analysts have concerns about excess supply of copper from 2013 to 2015, as several large projects enter commissioning. Experience shows, however, that global supply growth is generally lower than anticipated and output from historic assets will continue to decline. Demand for copper should benefit from a recovery in global growth and long-term prospects for copper are excellent.

With the disposal of the non-core assets, the improved management of costs and the emphasis on additional production, we have moved the Group a considerable way forward. We will now continue to consider our proposed restructuring, at the end of which Kazakhmys could be a remarkably different group, centred around three major growth projects and a core of cash generative producing assets. The outlook for copper remains positive and, as a simplified group focused on copper, I believe we can approach the future with increasing confidence.

## OPERATING REVIEW

## Review of Kazakhmys Mining

The Kazakhmys Mining Division incorporates the Group's mining, concentrating, smelting and auxiliary operations in Kazakhstan and the sales operation in the United Kingdom. The Division's key products are copper cathode, rod and concentrate, which contributed 74% of total revenue in 2013. Sales of zinc in concentrate, silver and gold products are also an important part of the Mining Division's business model.

## Kazakhmys Mining Production Summary

### Copper production

| kt (unless otherwise stated) | **2013** | 2012 |
|---|---|---|
| Ore output [1] | **39,191** | 37,507 |
| Copper grade (%) | **0.99** | 0.95 |
| Copper in concentrate from own production | **314.6** | 303.7 |
| Copper cathode equivalent from own concentrate | **294.0** | 292.2 |
| Cathode [2] | **262.5** | 292.2 |
| Concentrate [3] | **31.5** | – |
| Copper rod production | **12.1** | 23.9 |

1 Excludes output from the Central Mukur gold mine in 2012 and Bozymchak mine in 2013.
2 Includes cathode converted into rod, excluding tolling.
3 Copper cathode equivalent of copper in concentrate sold.

Ore output from Kazakhmys Mining's 16 operating mines increased to 39.2 MT in 2013, 4% above the prior year. Whilst ore production volumes rose in 2013, the focus remained on profitable production across the Division's three regions, in particular the Zhezkazgan Region, which is reflected in the increase in ore grade.

Ore extraction in the Central Region rose significantly in 2013 as the Konyrat open pit mine, which was re-started in June 2012, operated for a full year. The West Nurkazgan underground mine increased output after reconstruction works to increase the capacity of the main ore transportation conveyor were completed in June 2013. Output recommenced at the Abyz open pit mine in August 2013 after extraction had been suspended in January 2013 for stripping works to extend the mine's operational life until 2017. During the year, 640 kt of ore extracted from Akbastau mine was stockpiled, containing approximately 8 kt of copper (2012: 6 kt), which is unlikely to be processed in the near future.

In the Zhezkazgan Region, ore output declined by 3% with a reduction in production from the Annensky mine, as operations at some sections of the mine were suspended in July 2012 due to depletion. With the Group's focus on improving the Region's cash flow, ore output from the lower grade sections of the West, South and Stepnoy mines declined in the second half of 2013.

Ore output from the East Region was 8% lower than in the prior year. The decline in production from the Region reflected delays with backfilling works and equipment maintenance at the Artemyevsky mine. The prior year also included output from the Nikolayevsky mine before its suspension in the third quarter of 2012, as challenging operating conditions rendered the mine uneconomic. The Orlovsky mine, the Division's largest mine by copper metal in ore extracted, maintained ore output at 1.6 MT and as mining moved to higher grade sections, the average copper grade rose to 3.45% up from 3.04% in 2012.

During 2013, the average copper grade of ore extracted by Kazakhmys Mining increased to 0.99%, driven by the extraction of higher copper content material at the majority of the mines in the Zhezkazgan Region with a focus on profitable production. Grades at the Zhomart mine, the largest producer of copper metal in the Zhezkazgan Region, fell to 1.11% due to the mining of lower grade pillars. Grades in the Central Region declined with additional output from the low grade Konyrat mine partially offset by increased output and higher grades at the Akbastau mine. East Region's grades were above the prior year with the mining of higher content sections of the Orlovsky mine and the suspension of the lower grade Nikolayevsky mine in 2012.

Overall, the copper in ore extracted by Kazakhmys Mining was 28.4 kt above the prior year, benefiting from the higher copper grades in the Zhezkazgan Region and additional metal in ore output from the Akbastau, Konyrat and West Nurkazgan mines in the Central Region. Copper in ore output from the East Region fell with the lower output and grades at the Artemyevsky mine.

Copper in concentrate production increased by 10.9 kt in 2013 to 314.6 kt. Production volumes of copper concentrate benefited from the additional volumes of copper metal in ore extracted and processed in 2013.

However, this was partially offset by an increase in stockpiles during the year and a lower contribution from the reprocessing of waste material at the Balkhash processing facilities.

In the Zhezkazgan Region, as part of the ongoing review of assets, the Satpayev concentrator was suspended raising utilisation levels at the other two concentrators in the Region. The Zhezkazgan smelter was also suspended in the second half of 2013, resulting in the commencement of concentrate sales mainly to China which totalled 31.5 kt of copper cathode equivalent in 2013. The copper cathode and silver granule equivalents in the copper concentrate sold are recognised at recovery rates of 96.5% and 90%, respectively.

Copper cathode equivalent production from own material of 294.0 kt was 1.8 kt above the prior year. The 10.9 kt increase in copper in concentrate output in 2013 was offset by a large release of work in progress at the smelters in 2012. In 2013 copper cathode equivalent production included the release of 7.7 kt work in progress at the Zhezkazgan smelter.

Copper cathode equivalent production from own material is anticipated to be between 285 kt and 295 kt in 2014, approximately 40% of which will be from copper concentrate sales. Overall ore extraction volumes and copper grades are expected to be consistent with 2013 levels. Ore production from the Zhezkazgan Region is planned to decline with the focus on improving cash flows in the Region and a further ramp up in production from the Konyrat and West Nurkazgan mines in the Central Region is anticipated. The production of copper in concentrate from the Bozymchak mine is due to commence in the first half of 2014. The copper concentrate is expected to be processed into copper cathode at the Balkhash smelter.

Copper rod production was below the prior year due to reduced demand for imported rod products in China and production volumes are anticipated to be at similar levels in 2014.

## Zinc production

| | **2013** | 2012 |
|---|---|---|
| Zinc grade (%) | **3.09** | 3.31 |
| Zinc in concentrate (kt) | **134.1** | 151.6 |

The extraction of zinc metal in ore decreased by 21.1 kt to 213.6 kt in 2013. The decline in zinc metal output was impacted by the operational issues described previously at the Artemyevsky mine where zinc grades and ore output declined, partially offset by higher zinc grades at the Orlovsky mine. During 2013, zinc bearing ore was stockpiled at the Akbastau mine containing approximately 11 kt of zinc metal which is unlikely to be processed in the near future.

Zinc in concentrate production was 17.5 kt below the prior year due to a lower volume of zinc metal extracted and processed during the year. The decrease in zinc in concentrate output was partially offset by improved recovery rates at the Nikolayevsky concentrator in 2013, as the modernisation programme nears completion.

In 2014, zinc in concentrate production is expected to decline to approximately 120 kt with lower grades expected at the Orlovsky mine and lower zinc bearing ore volumes from the mature Yubileyno-Snegirikhinsky mine. It is expected that mining will cease at Yubileyno-Snegirikhinsky within the next two years due to depletion.

## Silver production

| koz (unless otherwise stated) | **2013** | 2012 |
|---|---|---|
| Silver grade (g/t) | **15.59** | 16.78 |
| Silver own production [1,2] | **12,957** | 12,643 |
| Silver granule equivalent in copper concentrate sold | **1,391** | – |

[1] Includes slimes from purchased concentrate.
[2] Includes a small volume of by-product production from the Central Mukur and Mizek mines.

Silver metal in ore mined in 2013 was 602 koz below the prior year as lower silver grades in the East Region more than offset higher ore extraction volumes. Silver bar and granule output increased by 314 koz in 2013, benefiting from a reduction of work in progress, compared to an increase in work in progress during 2012. Following the suspension of the Zhezkazgan smelter, copper in concentrate containing 1,391 koz of silver granule equivalent was sold to customers in 2013.

The output of silver granule and bar, including the silver granule equivalent volumes in copper concentrate sales, is estimated to be around 11,000 koz in 2014 due to an expected decline in silver grades from the mature mines in the Zhezkazgan Region. The silver granule equivalent volumes in copper concentrate sales are expected to make up 40% of the total production volumes.

### Gold production

| | **2013** | 2012 |
|---|---|---|
| Gold grade (by-product) (g/t) | **0.61** | 0.66 |
| Gold own production (by-product) [1] (koz) | **102.9** | 115.9 |
| Gold grade (primary) (g/t) | **–** | 1.31 |
| Gold doré production (primary) (koz) | **4.6** | 13.1 |

[1] Includes slimes from purchased concentrate.

Gold metal in ore extracted in 2013 was 11.8 koz below the prior year with operations at the high gold grade Abyz mine suspended for stripping works in January 2013 before output recommenced in August 2013. Lower grades and ore extraction at the Artemyevsky mine also impacted gold metal in ore output in 2013.

Gold bar production (by-product) decreased by 13.0 koz in 2013 when compared to the prior year, reflecting the lower volume of gold in ore mined, a build-up of ore at the Karagaily concentrator and a slight increase in work in progress at the Balkhash smelter at the end of 2013.

Gold doré production from the residual processing of previously extracted ore from the Central Mukur and Mizek mines is expected to cease during 2014.

Total gold bar and doré production from the Mining Division is anticipated to be approximately 125 koz in 2014. This will include the initial output from the Bozymchak mine which is due to commence production in the first half of 2014 and the processing of material stockpiled in 2013.

### Support services summary

Kazakhmys Mining operates two coal mines in the Central Region which supply the majority of their output to the Group's captive power stations with the balance sold to external third parties. In 2013, the coal mines produced 7.6 MT of coal, marginally ahead of the prior year.

Kazakhmys Mining also owns a rail and road transportation network to move ore, concentrate and cathodes. 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) | **2013** | 2012 |
|---|---|---|
| Sales revenues: | **3,058** | 3,362 |
| Copper cathodes | **1,973** | 2,088 |
| Copper rods | **85** | 187 |
| Copper concentrate | **210** | – |
| Zinc concentrate | **143** | 154 |
| Silver [1] | **311** | 414 |
| Gold (by-product) | **146** | 300 |
| Gold (primary) | **6** | 22 |
| Other | **184** | 197 |
| Average realised price of copper [2] ($/t) | **7,252** | 8,067 |
| EBITDA (excluding special items) | **705** | 1,160 |
| Net cash costs excluding purchased concentrate (USc/lb) | **222** | 174 |
| Gross cash costs excluding purchased concentrate (USc/lb) | **328** | 333 |
| Capital expenditure [3] | **1,317** | 1,233 |
| Sustaining | **432** | 624 |
| Expansionary | **885** | 609 |

[1] Includes small amount of sales revenue from the Central Mukur and Mizek mines.
[2] For sales of copper cathode, rod and copper in concentrate.
[3] Capital expenditure in 2012 and 2013 excludes major social projects.

## Revenues

Kazakhmys Mining's revenues were $304 million below the prior year due to the lower pricing for the Mining Division's key commodities and lower volumes of gold sales. The decline in revenues was partially mitigated by an 11% increase in copper cathode equivalent sales volumes in 2013.

Revenue from copper products of $2,268 million was consistent with the prior year as higher copper cathode equivalent sales volumes offset the decline in realised copper prices. The average realised price for copper cathode and rod sales fell by 9% to $7,318 per tonne in 2013. The realised price was below the average LME cash price for copper in 2013 of $7,328 per tonne, reflecting the timing of sales during the year.

As a result of the suspension of the Zhezkazgan smelter in September 2013, copper concentrate produced in the Zhezkazgan Region was sold directly to customers. The average realised price for copper in concentrate on a cathode equivalent basis was $6,663 per tonne including refining charges. The revenue from the sale of copper concentrate is recognised after refining charges are deducted. The revenue from the silver metal contained in the copper concentrate is recognised separately.

Copper product sales volumes increased from 282 kt in the prior year to 312 kt in 2013, with an 18 kt decrease in finished goods inventory during the year compared to a 10 kt rise in 2012 and slightly higher production volumes. In 2013, copper in concentrate sales totalled 31 kt on a cathode equivalent basis.

Revenues from zinc concentrate sales fell by $11 million in 2013 with a 9% reduction in sales volumes due to lower production. The realised price for zinc concentrate was marginally above the prior year.

Revenues from silver product sales fell by $103 million to $311 million as pricing on the LBMA exchange for silver declined, resulting in a 24% fall in the average realised price for silver bar and granules in 2013 to $23.70 per ounce. Silver product sales volumes of 13,506 koz in 2013 were slightly above the prior year as higher production volumes were partially offset by a build-up of finished goods. Sales volumes included silver in the copper concentrate sold during 2013 of 1,391 koz on a silver granule equivalent basis.

Revenues from gold products were significantly below the prior year with an 84 koz decrease in sales volumes to 109 koz in 2013. Sales volumes declined with a 22 koz reduction in production volumes and the sale of 69 koz of gold bar inventory in March 2012, which had been built-up in the second half of 2011. Gold product revenues were also impacted by lower pricing for gold on the LBMA exchange with the average realised price for gold products falling by 17% to $1,390 per ounce in 2013.

Other revenue includes sales of minor 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 2013, revenue from coal sales to the captive power stations totalled $55 million.

## EBITDA (excluding special items)

Kazakhmys Mining's EBITDA decreased by $455 million, or 39%, to $705 million in 2013, as revenues declined by $304 million and total cash operating costs rose by $151 million. While total cash operating costs increased year on year, in the second half of 2013 costs were below the comparative period in 2012 and the first half of 2013, reflecting the benefits of the Group's ongoing optimisation programme and asset review.

The Mining Division's cash cost of goods sold was higher in 2013 as the 4% increase in ore extraction volumes led to a higher usage of input materials such as explosives, fuel, diesel, tyres and reagents. Cost inflation for key input materials in 2013 was muted.

Operational employee costs rose in 2013 due to the pay awards made to staff in April and May 2012. Certain categories of workers were moved to a collective pay rate consistent across the Mining Division and the Division's wage structure was amended to recognise skills and experience. The impact of these pay awards has been partly mitigated by the Group's optimisation programme and measures to reduce employee costs. These initial actions have seen a decline in employee numbers and a reduction in working hours for some staff.

Repair and maintenance expenditure increased in 2013 with the additional ore volumes processed and inflationary pressures on the costs associated with maintaining underground mining and processing equipment.

Processing costs benefited from the closure of the Zhezkazgan smelter and the Satpayev concentrator. In December 2013, the Berezovsky concentrator, which processes ore from Irtyshsky mine, was suspended as part of the ongoing optimisation programme and asset review.

Utility costs rose as the tariffs charged by the captive power stations for electricity increased by 23% to reflect market rates instead of being priced at the cost of generation as in 2012. The increased tariffs offset the lower electricity usage volumes with the suspension of the Zhezkazgan smelter and Satpayev concentrator.

Selling and distribution costs were marginally above the prior year with the higher volumes of copper product sales.

The Mining Division's administration cash costs were above the prior year due to the full year effect of pay awards made during 2012 to administration staff to align their wages and salaries with the local market. The 2012 results also benefited from the release of a provision following a favourable court ruling in respect of environmental levies which was divided evenly between cost of goods sold and administration costs. Social responsibility costs were consistent with the prior year.

The Group's net disability benefits obligation increased by $157 million in 2013 following the assumption of liabilities which were previously insured due to the insurance company failing to make its required payments, and an increase in the number of claimants. The non-cash components of the disability benefits obligation of $26 million and the $84 million relating to the assumption of previously insured payments, are both excluded from EBITDA (excluding special items). Payments of $52 million were made during 2013 compared to $41 million in the prior year. Further details can be found in the Financial Review.

The tenge depreciated against the US dollar during 2013 with an average rate of 152.13 KZT/$ in 2013 compared to a rate of 149.11 KZT/$ in 2012. The decline in the average value of the tenge against the US dollar in 2013 reduced the tenge denominated costs such as labour, local services and utilities when stated in US dollar terms. On 11 February 2014, the National Bank announced it would support the tenge at around 185 KZT to the US Dollar, resulting in the devaluation of the tenge.

### Cash costs

The gross and net cash cost per unit sold metrics are used as a measure of the cost efficiency of Kazakhmys Mining's copper production operations. The gross and net cash costs calculations include electricity purchased from the captive power stations at the cash cost of supply and also include a charge for the smelting and refining costs which are deducted from the sales price of copper in concentrate.

The gross cash cost of copper sales was 328 US cents per pound in 2013. While Kazakhmys Mining's operating cost base grew in 2013, gross cash costs on a per unit basis were lower than the reported figure in 2012 with the 11% increase in the copper cathode equivalent sales volumes.

While the reported gross cash cost per unit sold fell in 2013, the net cash cost increased from 174 US cents per pound to 222 US cents per pound. The higher net cash cost reflects the decrease in by-product credits with the lower pricing for silver and gold products and reduction in zinc in concentrate sales volumes. The prior period was impacted by the sale of additional gold volumes including 69 koz of gold inventory which reduced the net cash cost by 7 US cents per pound.

In 2014, operating costs will benefit from the devaluation of the tenge on 11 February 2014 against the US dollar which will reduce tenge denominated costs and from further cost savings from the Group's ongoing optimisation programme and asset review. These factors are expected to offset domestic inflation, an additional pension tax introduced in 2014, higher refining charges for the processing of copper concentrate sold to China and the expected decline in sales volumes which will negatively impact unit costs when compared to 2013. The gross cash cost of copper sold in 2014 is anticipated to be between 315 and 330 US cents per pound.

## Capital expenditure

### Sustaining

Sustaining capital expenditure totalled $432 million in 2013 with a number of measures successfully introduced during the year to optimise spend which was below originally planned levels. Around $80 million of spend has been carried forward into 2014 due to the timing of payments.

Capital expenditure included continued investment on several upgrade projects carried forward from 2012 with spend of $83 million on non-recurring mine development projects and concentrator improvements in 2013. The capital expenditure in the period was applied to the annual mining equipment replacement programme and to maintaining output at concentrators, smelters, auxiliary workshops and the transport network.

Investments were made to maintain critical equipment at processing facilities, in particular the annual overhaul of a furnace at the Balkhash smelter. Minimal work was conducted at the Zhezkazgan smelter ahead of its suspension in September 2013.

The reconstruction work of the Nikolayevsky concentrator to increase its capacity and recovery rates progressed during the year. Upgrades to the grinding section have been finished and improvements to the flotation sections are nearly completed. The majority of the reconstruction project at the concentrator is planned to be completed by the first half of 2014.

The tailings dam at the Karagaily concentrator, which currently processes ore from the Abyz and Akbastau mines, is being expanded to cater for future operations.

The project to recommence operations at the Konyrat mine also included increasing the capacity of the Balkhash concentrator to process the additional ore from the mine. Work on the Balkhash concentrator is expected to be completed by the second quarter of 2014 after the upgrade of ore loading facilities.

Developments continued at the West Nurkazgan mine to increase output with the reconstruction of the main conveyor and the upgrade of infrastructure at the site. Design work to improve the performance of the concentrator was conducted during the year.

In 2014, the Kazakhmys Mining Division’s sustaining capital expenditure is expected to be between $350 million and $450 million, including mine development projects and concentrator improvements which will require up to $100 million.

**Expansionary**

In 2013, the Mining Division conducted an extensive review of its mid-sized projects with the intention of scaling back the Group’s capital expenditure requirements during the development of the major growth projects. A number of mine development projects that were progressing through the study phases have now been temporarily suspended.

The suspended projects include the Akbastau concentrator, South East Nurkazgan, Anissimov Klyuch, Zhaisan and Zhomart II development projects, although some project study works continued in 2013 in order to complete workstreams.

During 2013, technical studies continued on the project to extend the operational life of the Artemyevsky mine. Exploration data on the deposit was analysed and geotechnical and hydrogeological studies also progressed during the year. Further studies and some initial shafting work will be conducted in 2014, with the feasibility study for the project due to be completed in 2015.

In 2014, the Kazakhmys Mining Division’s expansionary capital expenditure, excluding Bozymchak, Aktogay and Bozshakol, is expected to be up to $30 million.

*Bozymchak*

The Bozymchak gold-copper deposit which is located in Kyrgyzstan is at the commissioning phase. The mine’s initial operation will be as an open pit with 1 MT of ore extraction per year. 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.

The stripping works and the development of the infrastructure required for the project to commence operation continued during the year. Infrastructure such as maintenance workshops, electricity lines, along with administration and accommodation facilities were either close to completion or completed.

The concentrator is now at the commissioning stage and operational crews have been preparing the concentrator with contractors ahead of its commencement and ramp up in 2014. The initial section of the mine’s tailing dam has been completed and work will continue on the remaining sections throughout 2014.

The first copper and gold concentrate production from the project is expected in the first half of 2014. The project is forecast to require capital expenditure of around $60 million in 2014 to complete the commissioning works.

*Bozshakol*

The Bozshakol sulphide ore deposit is located in the north of Kazakhstan and is a major growth project for Kazakhmys Mining. The first copper concentrate from Bozshakol is expected to be produced in 2015.

The development of the mine, concentrator and infrastructure is expected to cost around $2.2 billion. The project is being funded from the $2.7 billion facility obtained in 2010 from the China Development Bank and Samruk-Kazyna.

The deposit 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 an average of 87 kt of copper in concentrate per annum for the first 15 years, with gold, silver and molybdenum as by-products. 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 in the initial years of its operation.

During 2013, due to concerns over the progress of the project, Non Ferrous China was appointed as a second principal contractor at Bozshakol. Non Ferrous China has a strong track record in significant construction projects with experience in Kazakhstan and will be focused on providing additional resource to complete the construction and commissioning of the processing plant.

Engineering design work for the concentrator and infrastructure progressed during the year and the majority of the work has been completed. The main process building at Bozshakol has been enclosed for the winter season after the erection of steelwork and cladding was completed in 2013. The three major mills for the processing of ore were delivered to site on time.

Good progress was made during the year on supporting infrastructure for the concentrator and mine with earthworks on the tailings dam, construction of the main concentrator building and other processing facilities progressing. Significant developments were made on the installation of the permanent camp for workers during the year. Earthworks for the clay plant have also commenced ahead of its construction in 2014.

In 2014, the construction of the mine maintenance workshop and truck shop are expected to be completed and pre-production mining is planned to commence. The project is forecast to require capital expenditure of between $750 million and $950 million in 2014.

*Aktogay*

The Aktogay copper ore deposit is the Group’s second major growth project which commenced development after the Bozshakol project. The project will include an open pit mine and an on-site concentrator. The development is being primarily funded by a $1.5 billion project specific financing facility signed with the China Development Bank in December 2011.

The deposit is located in the east of Kazakhstan and has a measured and indicated oxide resource of 121 MT of ore with a 0.37% copper grade, and a sulphide resource of 1,597 MT of ore with a 0.33% copper grade. The deposit also contains some molybdenum by-product. The project benefits from the infrastructure which has been developed at the site with a power transmission line, railway access and camp accommodation already in place.

The project will initially develop the deposit’s oxide resource which is located above the sulphide ore body. The detailed engineering on the SX-EW plant has substantially been completed and construction of the leach pad commenced during the year. The first production from the oxide deposit is expected in 2015.

The development of the sulphide plant has been delayed by a year with the first ore due to be processed at the concentrator in 2017. Average annual output will be 72 kt of copper cathode equivalent during a mine life of over 50 years. Copper cathode equivalent production will average around 100 kt per annum for the first 10 years after the sulphide plant commences operation.

To ensure the successful delivery of the Aktogay project the principal contractor will be replaced with several smaller contractors in 2014. This has the added advantage of increasing the amount of local content in the project. The overall project costs are likely to change and an update will be provided once the tenders are completed. In 2014, work will continue on developing the infrastructure required to support the mine’s operations including water, railway and electricity supply. Bulk earthworks at the site are also expected to recommence in spring 2014. The project is forecast to require capital expenditure of between $450 million and $650 million in 2014.

## 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.

In December 2013, Kazakhmys announced that it had entered into an agreement to sell its interest in Ekibastuz GRES-1 to Samruk-Energo. The transaction was approved by shareholders on 7 January 2014 and it is expected that the transaction will complete in the first half of 2014, subject to customary regulatory approvals.

Ekibastuz GRES-1 currently has a generation capacity of 3,000 MW and a modernisation programme is in progress to return the power station to its nameplate capacity of 4,000 MW. The electricity generated by Ekibastuz GRES-1 is sold to third parties predominantly based in Kazakhstan, with the remaining output exported to Russia.

The Group's three captive heat and power stations are located in Karaganda, Balkhash and Zhezkazgan. The power stations mainly support the Group's mining operations, although around 40% of the net power they generated in 2013 was sold to third parties. The captive power stations had an average combined nameplate capacity of 993 MW in 2013.

## Kazakhmys Power production summary

### Ekibastuz GRES-1

| GWh (unless otherwise stated) | **2013** | 2012 |
|---|---|---|
| Net power generated | **12,785** | 14,368 |
| Net power generated attributable to Kazakhmys [1] | **5,862** | 7,184 |
| Net dependable capacity (MW) | **2,608** | 2,287 |

[1] Based on the Group's 50% non-controlling interest in Ekibastuz GRES-1 until 5 December 2013 when the Group's investment was classified as an asset held for sale. Generation volumes after 5 December 2013 have not been attributed to Kazakhmys.

The net power generated at Ekibastuz GRES-1 in 2013 was 11% below the prior year at 12,785 GWh. The decline in net generation volumes was due to lower demand with a 2% decrease in electricity consumption in Kazakhstan compared to the prior year. Competition from domestic power stations also impacted generation volumes, as local producers supplied electricity at relatively low tariffs to maintain their sales volumes. The decline in Ekibastuz GRES-1's domestic sales volumes was partially offset by a 1,680 GWh increase in sales volumes exported to Russia.

The net dependable capacity of Ekibastuz GRES-1 increased by 321 MW in 2013 mainly due to the commissioning of Unit 8 in the fourth quarter of 2012. The optimisation and modernisation programme also continued at the power station and two ESPs were installed during the year, thereby reducing emissions and also raising the station's net dependable capacity.

### Captive Power Stations

| | **2013** | 2012 |
|---|---|---|
| Net power generated (GWh) | **5,723** | 5,562 |
| Net dependable capacity (MW) | **843** | 854 |

The net power generation from the Group's three captive heat and power stations in 2013, was 3% above the prior year. Generation volumes benefited from improved equipment performance and an increase in availability following the enhancements made to the maintenance programmes at the power stations. Generation volumes from the power stations remain close to their maximum capacity.

The net dependable capacity of the captive power stations was marginally below the prior year as a turbine at the Balkhash heat and power station reached the end of its operational life in April 2013.

In 2014, generation volumes are expected to be slightly below the levels in 2013 as turbine replacements and other capital works are conducted to extend the operating lives and further improve the operating efficiency of the power stations.

## Kazakhmys Power Financial Summary

The financial results for Ekibastuz GRES-1 and the captive power stations are discussed separately below. Equity accounting of Ekibastuz GRES-1 earnings in the Group's consolidated financial statements ceased from 5 December 2013 following the agreement to sell the Group's 50% interest in the power station to Samruk-Energo. Therefore, the results for 2013 set out below only include Ekibastuz GRES-1's operational activities up to 5 December 2013.

### Ekibastuz GRES-1

| $ million (unless otherwise stated) | 2013 | 2012 |
|---|---|---|
| Sales revenues [1] | **248** | 290 |
| Average tariff (KZT/kWh) | **6.44** | 6.01 |
| Domestic sales | **6.88** | 6.11 |
| Export sales | **4.59** | 4.30 |
| Average cash cost (KZT/kWh) | **2.49** | 2.03 |
| EBITDA (excluding special items) [1] | **153** | 189 |
| Capital expenditure [1] | **154** | 162 |
| Sustaining | **63** | 90 |
| Expansionary | **91** | 72 |

[1] Represents 50% of Ekibastuz GRES-1's results for the year ended 31 December 2012 and for the period until 5 December 2013.

### Revenues

Electricity revenues attributable to Kazakhmys in 2013 were 14% below the prior year partly because revenues in 2013 are only included until 5 December 2013 whereas the prior year revenues included 12 months.

Revenues generated by Ekibastuz GRES-1 in 2013 were also lower due to the challenging domestic electricity market. Sales volumes declined by 11%, driven by a reduction in domestic demand and increased competition from local producers, resulting in domestic sales falling by 24%. To partially offset the decline in local demand, Ekibastuz GRES-1 more than doubled the electricity volumes exported to Russia.

The reduction in Ekibastuz GRES-1's electricity sales volumes was partially offset by a 7% increase in the weighted average realised tariff. The ceiling tariff applicable for domestic sales rose to 7.30 KZT/kWh in 2013, a 12% increase from the ceiling tariff applicable for the majority of 2012 of 6.50 KZT/kWh. The tariffs for export sales to Russia were also higher than in the prior year with an increase in market prices in Russia, but remain below the domestic tariff.

### EBITDA (excluding special items)

Ekibastuz GRES-1's EBITDA attributable to Kazakhmys was 19% below the prior year as the 2013 results only included operations up to 5 December 2013 and the profitability of the power station declined with lower revenues and higher operating costs.

Total cash operating costs at Ekibastuz GRES-1 rose by 10% in 2013 as inflation increased the costs of inputs used in power generation. Fixed costs also increased with the growth in the power station's generation capacity as Unit 8 operated for a full year in 2013 after it was re-commissioned in the last quarter of 2012.

Expenditure on coal, which comprises around 45% of Ekibastuz GRES-1's cash costs, was consistent with the prior year as prices charged by suppliers increased by around 10% which offset the reduced consumption due to the lower generation volumes.

Employee costs rose with inflationary pay awards made during 2013. Staff numbers also increased to cater for the growth in the power station's production capacity, with Unit 8 operational throughout 2013 and Unit 2 planned to commence in 2014.

Ekibastuz GRES-1's maintenance programme expanded compared to the prior year increasing repair costs. The regulatory authorities also raised tariffs on emissions, water usage and distribution charges.

### Cash cost

The average cash operating costs per kWh of electricity sold at Ekibastuz GRES-1 increased by 23% in 2013. The growth in the average cash operating costs was partially due to lower sales volumes on a higher fixed cost base and also reflected the impact of inflation, in particular on coal prices.

## Capital expenditure

### Sustaining

Ekibastuz GRES-1 runs a cyclical maintenance programme for the six 500 MW units operating at the power station to extend each unit's operating life. As part of this programme, major capital repair work on the boiler and auxiliary equipment at Unit 3 was conducted in conjunction with the installation of a new ESP in 2013. The second phase of the major overhaul of Unit 7 was also completed in November 2013.

Work was performed to enhance infrastructure at the power station with the reconstruction of the switchyard which integrates Ekibastuz GRES-1 with the Kazakhstan power network, upgrade works to the station's ash disposal system and also the water treatment facilities.

### Expansionary

Ekibastuz GRES-1 has been undergoing a major expansion programme to restore the power station to its nameplate capacity of 4,000 MW. This programme continued during 2013 with work progressing on the rehabilitation of Unit 2. During the year, dismantling works on the turbine, auxiliary equipment and generator took place and some of the new equipment was received. The rehabilitation of the unit remains on schedule to complete in late 2014.

Ekibastuz GRES-1 is proceeding with the rehabilitation of the final dormant unit, Unit 1. The project's design documents have been developed and dismantling work continued during the year. The unit is planned to be operational in late 2016.

To improve the environmental footprint of the power station, Ekibastuz GRES-1 has been installing ESPs to the plant's generators to reduce ash emissions to international benchmark standards. Under this programme of work, ESPs were installed at Units 3 and 7 during the year. All the operating units at Ekibastuz GRES-1 now have ESPs installed, significantly improving the environmental footprint of the power station.

## Captive Power Stations

| $ million (unless otherwise stated) | **2013** | 2012 |
|---|---|---|
| Sales revenues | **223** | 169 |
| Electricity generation | **192** | 154 |
| Heat and other | **31** | 15 |
| Average realised electricity tariff price (KZT/kWh) | **5.10** | 4.19 |
| Third party sales | **5.10** | 4.23 |
| Intercompany sales | **5.10** | 4.16 |
| Average cash cost (KZT/kWh) | **3.57** | 3.33 |
| EBITDA (excluding special items) | **48** | 19 |
| Capital expenditure (sustaining) | **67** | 47 |

### Revenues

Revenues from the sale of electricity and heat to Kazakhmys Mining and to third parties by the captive power stations rose by 32% in 2013. Electricity revenues grew by $38 million mainly as the ceiling tariff for the captive power stations increased 12% from 4.55 KZT/kWh in 2012 to 5.10 KZT/kWh in 2013 leading to a rise in the average realised tariff. Heat revenue also benefited from an increase in approved tariffs in 2013.

Electricity sales volumes were marginally higher than the prior year as generation at the captive power stations remained close to capacity. The suspension of the Zhezkazgan smelter and Satpayev concentrator in the second half of 2013 led to a decrease in the consumption of electricity at Kazakhmys Mining. This enabled the captive power stations to increase external sales in 2013 by 13%, to 2,366 GWh.

### EBITDA (excluding special items)

The captive power stations' EBITDA increased by $29 million to $48 million with higher revenues partially mitigated by an increase in cash operating costs.

Cash operating costs at the captive power stations increased in 2013 by $25 million as expenditure on repairs and maintenance rose to maintain and improve operational efficiency. The 2013 results also include a provision for bad debts mainly related to supplies of heating. In the prior year, the provision for bad debts was recognised within Kazakhmys Mining's results as the receivables were recorded prior to the separation of the captive power stations in late 2012.

Coal and mazut costs, which make up around 50% of the captive power stations' cost base were marginally lower in 2013, mainly due to improved efficiency of the operations. The coal is sourced predominantly from the Mining Division at cost.

Employee costs were above the prior year with some pay awards made in 2012. Regulatory authorities raised tariffs on distribution charges which increased operational costs, while administration costs were consistent with the prior year.

### Cash costs

The average cash operating costs per kWh of electricity sold from the captive power stations rose by 7% to 3.57 KZT/kWh compared to 3.33 KZT/kWh in 2012. The change in the average cost of electricity generation is mainly due to the additional repair and maintenance works conducted in 2013.

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 power stations, and the age of the equipment employed at these captive power stations.

### Capital expenditure

Capital expenditure of $67 million was invested into the modernisation and replacement of the existing boilers and turbines along with the upgrade of infrastructure at the captive power stations, in order to sustain their existing capacity.

A turbine replacement programme is underway with projects to install new turbines at the captive power stations. Dismantling works took place during the year at the Zhezkazgan heat and power station ahead of the installation of two new turbines in 2014 with a combined capacity of 67 MW. The project to transfer a turbine from the Zhezkazgan heat and power station to the Balkhash heat and power station also progressed during the year.

In 2014, capital expenditure is expected to be between $60 million and $80 million.

## Other businesses

### Review of MKM

MKM is based in Germany and produces copper and copper alloy semi-finished products. The Group disposed of its 100% holding in MKM on 28 May 2013 for €42 million, including €12 million on a deferred basis. Kazakhmys also received a dividend of €10 million from MKM in April 2013. MKM is treated as a discontinued operation in the Group's financial statements.

| $ million | **2013** | 2012 |
|---|---|---|
| EBITDA (excluding special items) [1] | **(2)** | 48 |
| Capital expenditure [1] | **9** | 11 |
| Sustaining | **9** | 9 |
| Expansionary | **–** | 2 |

[1] The results for MKM in 2013 are shown for the period until the date of MKM's disposal on 28 May 2013.

### EBITDA (excluding special items)

EBITDA was negative $2 million for the period to 28 May 2013 reflecting the IFRS inventory adjustment due to copper price movements which had a negative impact on EBITDA. In the prior year, MKM recorded a positive IFRS inventory adjustment.

### Capital expenditure

Capital expenditure in the period to 28 May 2013 totalled $9 million as MKM invested mainly to maintain production equipment.

### Review of ENRC

ENRC is a diversified natural resources group with significant operations in Kazakhstan and Africa. The Group disposed of its 26% interest in ENRC on 8 November 2013. As consideration for its holding in ENRC, the Group received net cash proceeds of $875 million and approximately 77 million ordinary shares in Kazakhmys, which have subsequently been cancelled.

### ENRC EBITDA (excluding special items)

| $ million | 2013 | 2012 |
|---|---|---|
| Kazakhmys' share of EBITDA (excluding special items) of ENRC [1] | **276** | 548 |

[1] Kazakhmys' share of EBITDA (excluding special items) of ENRC is for the period to 24 June 2013 based on the ENRC's unaudited interim results for the six months to 30 June 2013.

ENRC is treated as an asset held for sale from 24 June 2013 and a discontinued operation in the Group's financial statements. Kazakhmys' share of ENRC's EBITDA (excluding special items) in 2013 of $276 million is for the period to 24 June 2013 compared to a full year contribution in 2012.

Kazakhmys' share of ENRC's EBITDA in 2013 was also below the prior year, as ENRC's profitability in the first half of 2013 when compared to the corresponding period in 2012 was impacted by lower contributions from the Ferroalloys, Alumina and Aluminium and Energy Divisions. ENRC's revenues were $37 million lower in the first half of 2013 as higher sales volumes across all Divisions, except for the Iron Ore Division, reduced the impact of the lower realised prices obtained for key products such as ferroalloys. Operating cash costs were also higher than the comparative period in the prior year with the growth in sales volumes, an increase in wage rates and higher corporate costs in the first half of 2013.

## CORPORATE RESPONSIBILITY

Responsible behaviour supports our business strategy by helping us to manage reputational and regulatory risks, access capital, reduce operational costs, build good relationships with regulators and local communities, and attract and retain talented employees. Acting responsibly also helps to enhance social and economic development in the communities where we operate – our taxes, employee remuneration, spending and social investment make a significant contribution to the economy of Kazakhstan. Improving our health and safety performance remains our first priority, as safe, healthy working conditions are the minimum our employees and contractors should expect.

We continue to develop our internal reporting systems to improve the management of data. We are currently working with external consultants to provide greater assurance over our corporate responsibility (CR) reporting.

### Health and safety

Improving our safety record remains our absolute priority. In 2013, we spent approximately $40 million in this area and continued to integrate industry and international best practices into our production operations. We remain focused on the six key areas of roof collapse, contact with energy sources, ventilation, personal protective equipment, training and skills, and pedestrian safety. We reinforce our safety culture at every opportunity.

We are very sorry to report that 15 employees and three contractors died while working at Kazakhmys this year, compared with 15 and four respectively in 2012. We continue to work hard to prevent further fatalities and view every fatal incident as avoidable.

Our focus on reducing incidents involving rock falls is showing improvement in this area. Historically, this has been the most common cause of fatal incidents. In 2012, seven out of 19 fatalities in total resulted from rock fall. In 2013, this figure reduced to three fatalities, or 17% of the total number for both our employees and contractors. This is the result of installing additional roof supports, as well as improved hazard awareness among our employees and contractors. Falls from height were the most common cause of fatalities in 2013. We are strengthening our efforts to enforce our corporate safety standard for working at height.

Our lost-time injury frequency rate (LTIFR) increased from 1.80[1] in 2012 to 1.84 in 2013. The total number of lost-time injuries among our employees has seen a slight reduction from 174 in 2012 to 172 in 2013. However, total hours worked have reduced by a larger amount following the suspension of operations at our Zhezkazgan smelter and the concentrator in Satpayev, resulting in an increase in LTIFR. We also continue to see improvements in incident reporting and investigation, which resulted in more cases being registered. This is a positive development that we believe will underpin the improvement in our safety performance.

[1] We have restated the LTIFR for 2012 to exclude contractor man hours at Ekibastuz GRES-1.

### Environment

#### Energy use

In 2013, Group-wide energy use was 5,800 GWh, 7% lower than in 2012. This breaks down into reductions of 8% in the Mining Division and 6% in the Power Division. The drop in usage is primarily the result of lower production output at Ekibastuz GRES-1, and the suspension of one of our smelters and a concentrator in H2 2013. We anticipate further reductions as our energy efficiency programme takes effect. Power generated at Ekibastuz GRES-1 is sold to third parties and is not used in copper production. Due to reduced demand, the amount of both gross power generated and power sold to third parties fell by 11%. The captive power plants that supply our mining operations also sell roughly half of the energy they generate to third parties. This rose in 2013 from 2,098 GWh to 2,366 GWh.

#### Greenhouse gas emissions

Total carbon dioxide equivalent ($CO_2e$) emissions for the Group totalled 25.7 million tonnes, 8% less than in the prior year. The reduction is driven by the suspension of the smelter in Zhezkazgan, lower power output at Ekibastuz GRES-1 and more efficient fuel consumption at our captive power stations. Total $CO_2e$ output for the Mining Division decreased 13% to 2.4 million tonnes, the Power Division reported a 7% decrease to 23.3 million tonnes. Emissions reported for the Power Division include those resulting from the generation of energy sold to third parties, as well as those arising from operational energy use. In 2013, we announced the disposal of Ekibastuz GRES-1, which accounts for more than 50% of our $CO_2e$ emissions. Total emissions from the Mining Division and our captive power stations amounted to 11.7 million tonnes. This year, we are reporting emissions intensity for the first time. Due to the very different nature of our Mining and Power Divisions, we believe reporting emissions per unit of revenue, rather than copper output, represents a more accurate measure. Group revenue (including 100% of revenue from Ekibastuz GRES-1) amounted to $3,595 million in 2013 and $3,933 million in 2012. Group-wide emissions intensity was 0.007 tonnes/US dollar of revenue in 2013, in line with 2012 levels.

In 2013, the Government of Kazakhstan piloted its greenhouse gas emissions trading scheme by requiring companies to monitor and report emissions, without trading. Under the scheme, we are required to submit our annual emission reports for external verification, prior to delivering them to the regulator. We expect carbon prices and quotas to be set based on our greenhouse gas emissions inventory for 2013, which we will submit in May 2014. Trading is unlikely to begin until 2015.

### Emissions to air

Our operations produce substantial amounts of sulphur dioxide ($SO_2$), nitrogen oxides ($NO_x$), arsenic, ash and dust. These emissions are one of the most direct impacts we have on local communities and we continue with our programme of equipment upgrades to reduce them.

In 2013, $SO_2$ emissions for the Group totalled 214,123 tonnes, compared with 258,877 tonnes in 2012. We seek to maintain low levels of $SO_2$ by capturing emissions from our smelters in Balkhash and Zhezkazgan and transforming them into sulphuric acid. At 68,573 tonnes, emissions from the Mining Division were 34% lower than in 2012, which was largely driven by the suspension of the smelter in Zhezkazgan from September 2013. The Power Division produced 52,630 tonnes of $NO_x$, compared with 55,246 tonnes in the prior year. $NO_x$ output for the Mining Division decreased by 6% from 2012 to 1,301 tonnes, largely due to warmer weather conditions which resulted in lower fuel consumption. Total ash emissions for the Group fell by 32% in 2013 to 83,138 tonnes. The Mining Division produced 2,770 tonnes, compared with 3,464 tonnes in 2012, largely due to warmer weather conditions which resulted in lower fuel consumption at our operations. The Power Division reduced ash emissions by 32% to 80,368 tonnes, from 118,519 tonnes in 2012.

### Water

In 2013, the Group used 3.3 million megalitres of water in total, in line with 2012. Of this, 2.4 million megalitres was recycled process water, which is captured and reused multiple times. A further 863,055 megalitres was surface water that we draw directly from lakes, rivers and reservoirs. This is an 8% increase on surface water withdrawal compared to 2012, which is driven by higher power generation at our captive power plants. The remaining 53,806 megalitres (under 2% of our total usage) came from potable water sources such as groundwater, springs and municipal systems that we share with the local community.

### Waste

In 2013, the Group produced 126 million tonnes of waste, of which 23% was reused or recycled. The recycling rate dropped from the 30% we reported in 2012 due to less rehabilitation work at sites, where overburden is typically used for finished sections. The majority of waste produced at our operations is overburden, tailings and ash from the Mining Division. Most other waste streams are sent to contractors for recycling, and we also reuse some materials internally.

## Employees

A skilled workforce is critical to the future of our business and we aim to offer attractive careers at all levels. As a minimum, we are committed to providing fair, safe and secure working conditions. The optimisation of our business has brought changes for many of our employees and we are providing support for those who are affected. The optimisation process focuses firstly on reducing other operational costs, with headcount reductions only taking place where necessary. Where employee numbers are being reduced in Kazakhstan, this is done based on industry benchmarks of the number of people needed to perform an operation and in compliance with local regulation. We have provided sufficient notice of changes to employment contracts, giving people whose jobs are at risk an opportunity to find a different role. Internal communications kept our employees informed about the changes and the reasons behind them.

We provide training and development opportunities to all our employees, to incentivise them to stay and progress within the business. In 2013, our employees received 44 hours of training each on average. This includes regulated health and safety training, as well as additional professional development and further education.

The majority of our workforce in Kazakhstan is local and we employ international expertise only where necessary to transfer skills and best practice in the longer term. In 2013, 99% of employees within the Mining Division were Kazakh nationals. We maintain a high level of gender diversity for the mining industry – in 2013, 34% of our employees were women. This proportion is particularly high in engineering and technical roles (58%), but is lower at management level, where 21% are women. The appointment of Lynda Armstrong as a non-executive Director of Kazakhmys PLC in October 2013 introduced the first woman to our Board, bringing female representation to 11%.

## Communities

### Economic development

In 2013, we sourced 67% of our goods and services from companies based in Kazakhstan. This amounted to spending of almost $1.3[1] billion with local suppliers. We continue to help reduce unemployment and diversify the local economies in Zhezkazgan and Balkhash by working with a supplier association in each region. The associations have 92 members employing 4,500 people in total. In addition to providing loans and guaranteed sales, we support association members in ways such as deferring loan repayments or allowing loans to be repaid with product rather than cash.

Our efforts to boost the Kazakh economy were recognised with a national award for local content development for the second consecutive year.

1 Including spending at Ekibastuz GRES-1.

### Social investment

The Mining Division's total social investment, including voluntary spending and spending under licences, was $57 million in 2013, compared with $52 million in the previous year. Our social investment programme prioritises projects in education, sports and culture, local infrastructure and public health.

The transfer of ownership of the social facilities the Group inherited with its operations is well underway. In 2013, 23 assets were transferred in total. Of these, 11 were sold, 10 were transferred back to the Government and two were outsourced. Ownership of around 90 further assets will be transferred in 2014 and 2015. We seek to ensure that the transfer of these facilities does not affect their use by our employees and try to provide preferential terms of use in cooperation with new owners where possible. Sales of assets to third parties are conditional upon the new owners retaining the employees.

## FINANCIAL REVIEW

### Basis of preparation

The financial information has been prepared in accordance with IFRSs as adopted by the EU using accounting policies consistent with those adopted in the consolidated financial statements for the year ended 31 December 2012, except for the first-time adoption of IAS 19 (revised) 'Employee benefits' with effect from 1 January 2013. This has not had a material impact on the financial position or performance of the Group. Consequently, no adjustment has been made to the comparative financial information as at 31 December 2012.

As explained in note 7 of the consolidated financial information and in the 'Discontinued operations' section of this Financial Review, the following businesses have been treated as discontinued operations for the year ended 31 December 2013: MKM, to the date of its disposal on 28 May 2013, the Group's joint venture investment in Ekibastuz GRES-1 to the date the Group accepted an offer for its sale on 5 December 2013 and the Group's investment in ENRC to the date the Group accepted an offer for its sale on 24 June 2013. The income statement prior year comparatives have been restated to conform to this presentation.

### Income statement

An analysis of the consolidated income statement is shown below:

| $ million (unless otherwise stated) | 2013 | 2012 |
|---|---|---|
| **Continuing operations** | | |
| Revenues | **3,099** | 3,353 |
| Operating costs (excluding non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, MET and special items) | **(2,377)** | (2,226) |
| **Segmental EBITDA (excluding special items) from continuing operations** | **722** | 1,127 |
| Special items: | | |
| Less: additional disability benefits obligation related to previously insured employees | **(84)** | – |
| Less: impairment charges | **(670)** | (192) |
| Less: loss on disposal of assets | **(14)** | (8) |
| Less: MET | **(242)** | (260) |
| Less: non-cash component of the disability benefits obligation | **(26)** | (149) |
| Less: depreciation, depletion and amortisation | **(288)** | (276) |
| **(Loss)/profit before finance items and taxation** | **(602)** | 242 |
| Net finance costs | **(79)** | (91) |
| **(Loss)/profit before taxation** | **(681)** | 151 |
| Income tax expense | **(127)** | (86) |
| **(Loss)/profit for the year from continuing operations** | **(808)** | 65 |
| **Discontinued operations** | | |
| Loss for the year from discontinued operations | **(1,224)** | (2,335) |
| **Loss for the year** | **(2,032)** | (2,270) |
| Non-controlling interests | **2** | (1) |
| **Loss attributable to equity holders of the Company** | **(2,030)** | (2,271) |
| **EPS – basic and diluted ($)** | | |
| From continuing operations | **(1.57)** | 0.12 |
| From discontinued operations | **(2.39)** | (4.45) |
| | **(3.96)** | (4.33) |
| **EPS based on Underlying Profit ($)** | | |
| From continuing operations | **0.04** | 0.36 |
| From discontinued operations | **0.33** | 0.58 |
| | **0.37** | 0.94 |

### Revenues

The Group's revenues of $3,099 million were 8% below the $3,353 million achieved in the year ended 31 December 2012. Copper revenues were in line with 2012 as higher copper cathode equivalent sales volumes compensated for lower realised prices following an 8% fall in the average LME price. The higher copper cathode equivalent sales volumes were attributable to a rise in production volumes as well as a reduction in finished goods inventory. The decline in total revenues was due to a fall in by-product revenues, particularly gold, which in 2012 benefited from the sale of inventory accumulated in the second half of 2011. Realised prices for both gold and silver by-products declined.

## EBITDA (excluding special items) by operating segment

EBITDA (excluding special items) has been chosen as the key measure in assessing the underlying trading performance of the Group. This performance measure removes the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, MET and those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the Group. As EBITDA is considered to be a proxy for cash earnings from current trading performance the actuarial remeasurement charge recognised in the income statement in respect of the Group's disability benefits obligation has been excluded from EBITDA and instead, the actual disability benefits payments disbursed during the year have been deducted in arriving at EBITDA. The Directors also believe that the exclusion of MET provides a more informed measure of the operational profitability of the Group given the nature of the tax as further explained in the 'Taxation' section.

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

| $ million | 2013 | 2012 |
|---|---|---|
| **Continuing operations** | | |
| Kazakhmys Mining | **705** | 1,160 |
| Kazakhmys Power [1] | **48** | 19 |
| Corporate Services | **(31)** | (52) |
| **Total continuing operations** | **722** | 1,127 |
| **Discontinued operations** | | |
| MKM | **(2)** | 48 |
| Share of EBITDA of joint venture [2] | **153** | 189 |
| **Segmental EBITDA (excluding special items)** | **873** | 1,364 |
| Share of EBITDA of associate [3] | **276** | 548 |
| Total discontinued operations | **427** | 785 |
| **Group EBITDA (excluding special items)** | **1,149** | 1,912 |

1 Kazakhmys Power in continuing operations comprises the Group's captive power stations.
2 The share of EBITDA of joint venture relating to Ekibastuz GRES-1 up to 5 December 2013, the date on which the Group accepted an offer for its sale and ceased equity accounting and for the year ended 31 December 2012, is classified within discontinued operations.
3 The share of EBITDA of associate relating to ENRC up to 24 June 2013, the date on which the Group accepted an offer for its sale and ceased equity accounting and for the year ended 31 December 2012, is classified within discontinued operations. The share of EBITDA (excluding special items) of ENRC excludes MET of ENRC.

Segmental EBITDA (excluding special items) from continuing operations of $722 million was 36% lower than the prior year, principally as the decline in revenues and higher operating costs driven by inflationary pressures on input costs led to a fall in the EBITDA contribution from Kazakhmys Mining.

The EBITDA contribution of Kazakhmys Power increased to $48 million from $19 million in 2012 due to a growth in revenues, benefiting from higher ceiling tariffs.

EBITDA (excluding special items) from discontinued operations decreased compared to the prior year. MKM's contribution for the period to 28 May 2013, the date on which it was sold, was a loss as declining copper prices led to a negative IFRS inventory adjustment in cost of sales compared to a positive adjustment in 2012. The Group's 50% share of EBITDA of Ekibastuz GRES-1 to 5 December 2013 has fallen by 19% to $153 million, affected by equity accounting for this shortened period compared to a full year in 2012, lower sales volumes and higher operating costs. The Group's 26% share of EBITDA (excluding special items) of ENRC of $276 million to 24 June 2013 represented a decline of $272 million compared to the share of EBITDA for the full year 2012.

## Special items

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

### Special items within (loss)/profit before finance items and taxation:

*2013*

*Impairment charges*

In light of the decline in the price of commodities produced by the Group and inflationary pressures on operating costs, the Group commenced an optimisation programme and asset review which has resulted in operating cost and capital expenditure savings.

The asset review has considered the results of the optimisation programme to date, and the potential for future cost savings, when assessing the future economic outlook for assets. The prospects for the Zhezkazgan Region, a cash generating unit within the Mining Division, are considered challenging. The recoverable amount of the Zhezkazgan Region cash generating unit is believed by management to be significantly lower than its carrying value such that the Region has been fully impaired and an impairment charge has been recognised as follows:

- $477 million against total assets in the Region, comprising $325 million against property, plant and equipment, $139 million against mining assets and $13 million against long-term advances.

The asset review also resulted in certain production assets and medium-sized projects being suspended or subject to a change in intended use. The following impairments against specific assets have been recognised:

- $119 million against assets in the Zhezkazgan Region, comprising $115 million against property, plant and equipment, primarily relating to the Satpayev concentrator, which was suspended in June 2013 and the Zhezkazgan smelter, which was suspended in the second half of 2013, and $4 million against specialised consumables;
- $61 million against medium-sized projects which were suspended; and
- $13 million against other assets, including the Berezovsky concentrator in the East Region, which was suspended in the second half of 2013.

The total impairment charges treated as special items for the year ended 31 December 2013 were $670 million.

*Loss on disposal of assets*

During 2013, the Group disposed of various assets for proceeds of $38 million on which a loss of $14 million was realised.

*Disability benefits obligation*

In accordance with Kazakhstan law, the Group obtained insurance cover from 2005 for the disability payments to employees for illness and disability sustained at the Group's operations. During 2013, as a result of financial difficulties, the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. The Group has assumed the liability for future disability benefit payments to these employees and the related $84 million charge has been treated as a special item in the income statement.

Further details of the disability benefits obligation are given in the Balance Sheet section of this review.

*2012*

*Impairment charges*

The following impairment charges were recognised in 2012:

- a charge of $162 million in respect of the Bozymchak gold/copper project in Kyrgyzstan. As a result of operational challenges experienced in Kyrgyzstan the project is expected to commence production later than originally envisaged, capital costs were revised upwards and the risks associated with the project's execution were reassessed. Following the impairment charge, which consisted of $71 million against mining assets and $91 million against property, plant and equipment, the Bozymchak project was recognised at its recoverable amount of $106 million as at 31 December 2012. Of the total Bozymchak impairment, $19 million related to the impairment of capitalised borrowing costs;
- within mining assets, a charge of $7 million relating to the Nikolayevsky mine which was suspended in August 2012 as it was no longer considered economically viable to operate this mine; and
- a charge of $11 million against property, plant and equipment relating to transportation infrastructure owned by the Group following a change in the intended use of the assets and a reassessment of their future cash flows.

*Loss on disposal of subsidiary*

In 2012, Kazakhmys Mining sold a subsidiary in Kazakhstan and recognised a loss on disposal of $8 million.

Total special items within (loss)/profit before finance items and taxation for continuing operations in 2013 amounted to $768 million compared to $200 million in 2012. Special items within loss before finance items and taxation in respect of discontinued operations of $551 million (2012: $30 million) relate to the losses on disposal of the Group's investment in ENRC and MKM and the impairment charge recognised to reduce MKM's carrying value to the net sales proceeds. Further details are given in the 'Discontinued operations' section.

## Net finance expenses

Finance expenses from continuing operations for the year, including foreign exchange movements, interest on employee benefits obligations and the discount on the unwinding of long-term provisions, were $79 million compared to $91 million in the prior year. The finance costs incurred on borrowings decreased to $51 million from $79 million in 2012, as $126 million of the total $177 million interest charged on the Group's borrowings was capitalised to the development projects, Bozshakol, Bozymchak and Aktogay, an increase of $87 million over the costs capitalised in 2012. The level of capitalised costs has risen due to higher interest charges on larger outstanding principal balances.

The decrease in finance costs incurred on borrowings was partially offset by an $11 million increase in the interest charged on the employee benefits obligation, as a higher discount rate was applied to a larger obligation.

## Taxation

The table below shows the Group's effective tax rate as well as the all-in effective tax rate which takes into account the impact of MET and removes the effect of special items and non-recurring items on the Group's tax charge.

| $ million (unless otherwise stated) | 2013 | 2012 |
|---|---|---|
| **(Loss)/profit before taxation from continuing operations** | **(681)** | 151 |
| Add: MET | **242** | 260 |
| Add: special items | **768** | 200 |
| **Adjusted profit before taxation from continuing operations** | **329** | 611 |
| Income tax expense | **127** | 86 |
| Add: MET | **242** | 260 |
| Add: deferred tax asset on additional disability benefits obligation related to previously insured employees | **17** | – |
| Less: impairment of deferred tax assets recognised in the Zhezkazgan Region | **(98)** | – |
| Add: refund of past EPT payments | **–** | 60 |
| Add: recognition of a deferred tax asset resulting from impairment charges | **21** | 13 |
| Add: deferred tax assets on other special items | **2** | – |
| **Adjusted tax expense from continuing operations** | **311** | 419 |
| **Effective tax rate (%)** | **(19)** | 57 |
| **All-in effective tax rate [1] (%)** | **95** | 69 |

[1] The all-in effective tax rate is calculated as the income tax expense plus MET less the tax effect of special items and other non-recurring items, divided by profit before taxation which is adjusted for MET, special items and other non-recurring items. The all-in effective tax rate is considered to be a more representative tax rate on the recurring profits of the Group.

### Effective tax rate

Despite making a loss before taxation from continuing operations of $681 million, the Group has incurred a tax charge of $127 million. This is largely due to the non-deductibility of the impairment charges recognised during the year, in particular the $477 million impairment in respect of assets in the Zhezkazgan Region, which has a $95 million negative impact on the tax charge. In addition, previously recognised deferred tax assets of $98 million in the Zhezkazgan Region, primarily related to the employee benefits obligation, have been impaired. Based on the economic outlook for the Region it is not expected that sufficient taxable income will be generated to recover these assets. Other factors affecting the tax charge and effective tax rate in 2013, such as transfer pricing provisions, other non-deductible items and unrecognised tax losses are discussed below.

As a result of these factors the effective tax rate was (19)% compared to 57% in 2012, which benefited from a refund of EPT of $60 million received during the year. The restatement of the Group's income statement following the reclassification of ENRC and Ekibastuz GRES-1 as discontinued operations has led to a restatement of the effective tax rate for 2012. Prior to this reclassification the effective tax rate was (4)%.

### All-in effective tax rate

The all-in effective tax rate increased from 69% in 2012 to 95% in 2013, as MET, which is revenue based and independent of the profitability of the operations, was only 7% lower than in 2012 whilst the adjusted profit before taxation fell by 46%. In 2013 the MET charge represented 74% of the adjusted profit before taxation compared to 43% in 2012. The level of non-deductible items, other than the impairment charge in respect of the Zhezkazgan Region, is largely unchanged and also represents a higher proportion of the adjusted profit before taxation in 2013 compared to the prior year.

### Excess profits taxation (EPT)

As disclosed in the 2012 Annual Report and Accounts, the Supreme Court of Kazakhstan ruled in favour of Kazakhmys LLC in relation to past disputes over the interpretation of the EPT legislation. As part of this ruling, the Supreme Court also found that Kazakhmys LLC should not have been an EPT payer in the period from 2006 to 2008 inclusive. Management subsequently submitted a claim for $108 million to the Ministry of Finance. By 31 December 2012, $60 million had been reimbursed by set-off against the 2012 tax year income tax and mineral extraction tax liabilities and was recognised in the consolidated financial statements as a special item. The remaining $48 million of the $108 million claim was challenged by the Ministry of Finance, who believes that this amount relates to periods beyond the Kazakhstan statute of limitations. The Ministry of Finance is continuing to pursue legal action over the remaining $48 million of the $108 million claim. Consequently, management believes there is sufficient uncertainty over its recoverability such that a credit has not been recognised in the 2013 income statement.

### Transfer pricing

A provision of $5 million has been recognised as at 31 December 2013 (2012: $6 million) for transfer pricing exposures. This is principally where external and intercompany sales contracts entered into during the year resulted in certain of the Group’s profits being taxed twice in the UK and Kazakhstan due to inconsistencies between the transfer pricing legislation of both jurisdictions. Additionally, further transfer pricing exposures exist on certain sales contracts entered into with European and Russian customers, which include trading terms that are not fully acceptable under Kazakhstan transfer pricing legislation.

In addition to the current year charge, the Group released past transfer pricing provisions of $18 million following confirmation of the Group’s transfer pricing calculations on by-products by the tax authorities.

### Non-deductible items

The tax impact of non-deductible items, other than the impairment charge in respect of the Zhezkazgan Region referred to above, was $50 million in 2013 (2012: $53 million), mainly relating to other impairment losses and ongoing non-deductible business expenses at Kazakhmys Mining.

### Unrecognised tax losses

The Group has incurred tax losses during the year, primarily related to certain subsoil use contracts, which are not forecast to generate sufficient taxable profits to utilise these losses in the foreseeable future. As a result, deferred tax assets of $27 million (2012: $16 million) in respect of these losses have not been recognised.

### Taxation related special items:

*2013*

As noted above under ‘Effective tax rate’, previously recognised deferred tax assets in the Zhezkazgan Region of $98 million have been impaired. This charge has been treated as a taxation related special item.

Deferred tax assets have been recognised in respect of certain impairment charges, treated as special items, where future tax benefits are expected. The resulting tax credit has been treated as a taxation related special item.

The additional disability benefits obligation recognised in 2013 of $203 million, of which $84 million was treated as a special item, is deductible against taxable profits in the future when the disability payments are made. As a result, a deferred tax asset was recognised during the year in respect of the obligation, with $17 million in respect of the $84 million charge treated as a taxation related special item. The majority of this deferred tax asset has subsequently been impaired at year end as part of the $98 million deferred tax impairment in the Zhezkazgan Region referred to above.

### MET

MET is a revenue based tax and is derived from the volume and metal content of extracted ore and global commodity prices. During 2013, the impact of lower commodity prices was only partially offset by an increase in the quantity of metal extracted by Kazakhmys Mining, leading to a decrease in the MET expense, within cost of sales, from $260 million in 2012 to $242 million, a reduction of 7%.

*2012*

As the impairment of the Bozymchak asset in 2012 was treated as a special item, the related tax impact of this impairment, a deferred tax credit of $13 million, was also treated as a special item. The deferred tax credit was recognised at 10%, being the statutory rate in Kyrgyzstan.

### Future tax rates

Future tax rates are materially affected by the application of corporate income tax ('CIT') and MET. The CIT rate in Kazakhstan is 20% on assessable profits whilst MET is revenue based and dependent on copper prices.

### Discontinued operations

| $ million | **2013** | 2012 |
|---|---|---|
| **MKM** | | |
| (Loss)/profit before tax excluding impairment losses | **(2)** | 44 |
| Impairment losses | **(23)** | (18) |
| Loss on disposal | **(1)** | – |
| Taxation (charge)/credit | **(1)** | 7 |
| **(Loss)/profit for the year** | **(27)** | 33 |
| **Ekibastuz GRES-1** | | |
| Share of profits from joint venture | **89** | 126 |
| **Profit for the year** | **89** | 126 |
| **ENRC** | | |
| Share of profits/(losses) from associate | **65** | (258) |
| Impairment charge against investment in associate | **(823)** | (2,223) |
| Loss on disposal | **(528)** | – |
| **Loss for the year** | **(1,286)** | (2,481) |
| **Kazakhmys Petroleum** | | |
| Loss on disposal | **–** | (13) |
| **Loss for the year** | **–** | (13) |
| **Loss for the year from discontinued operations** | **(1,224)** | (2,335) |

*MKM*

MKM was sold on 28 May 2013, for a consideration of €42 million ($55 million), comprising €30 million ($39 million) in cash and €12 million ($16 million) which is deferred over four years. The results from MKM include its loss for the period until its disposal of $4 million, an impairment charge of $22 million to write MKM down to the net sales proceeds and a $1 million loss on its disposal. The loss on disposal of MKM arises from the recycling of the foreign currency translation losses recognised in the Group's equity on consolidation of MKM of $2 million.

*Ekibastuz GRES-1*

On 5 December 2013, the Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-1 and the Group's investment in Kazhydrotechenergo LLP (Kaz Hydro) for a net amount of $1,249 million, after transaction costs of $2 million and the additional $49 million payable for the remaining shares held in Kaz Hydro. The offer was approved by Kazakhmys shareholders on 7 January 2014, with completion dependent on certain conditions precedent. The share of the post-tax results of Ekibastuz GRES-1 for the period ended 5 December 2013, the date on which equity accounting ceased, of $89 million has been included in the 2013 consolidated income statement. This represents a 29% fall compared to $126 million reported for the full year of 2012 due to the shortened period, lower sales volumes and higher operating costs.

*ENRC*

On 24 June 2013, the Group accepted the proposed offer from Eurasian Resources Group B.V. ('Eurasian Resources'), for its 26% investment in ENRC, comprising $2.65 in cash plus approximately 0.23 Kazakhmys PLC shares per ENRC share, amounting in total to $1,194 million net of expenses. An impairment charge of $823 million was recognised to write the investment down to this value in the first half of 2013. On 8 November 2013, the transaction completed and the Group received the net proceeds of $1,194 million, comprising $875 million in cash and 77,041,147 Kazakhmys PLC shares valued at $319 million. The Group recognised a loss on disposal of $528 million, mainly representing the recycling of the Group's share of ENRC's reserves which arose principally from the translation reserve. As well as the impairment charge and the loss on disposal, the Group's share of post-tax results of ENRC of $65 million up to 24 June 2013, the date on which equity accounting ceased, has been included in the 2013 consolidated income statement. The Group's share of ENRC's post-tax results for the year ended 31 December 2012 was a loss of $258 million, after an impairment charge of $316 million.

The results from discontinued operations for the year ended 31 December 2012 comprise MKM, Ekibastuz GRES-1 and ENRC as well as the final completion price adjustment on the sale of Kazakhmys Petroleum.

## Underlying Profit

The reconciliation of Underlying Profit from (loss)/profit attributable to equity holders of the Company is set out below:

| $ million | 2013 | 2012 |
|---|---|---|
| Net (loss)/profit attributable to equity shareholders of the Company from continuing operations | **(806)** | 64 |
| Special items: | | |
| Additional disability benefits obligation related to previously insured employees | **84** | – |
| Impairment charges | **670** | 192 |
| Loss on disposal of assets | **14** | 8 |
| Taxation related special items: | | |
| Recognition of a deferred tax asset on additional disability benefits obligation related to previously insured employees | **(17)** | – |
| Impairment of deferred tax assets recognised in the Zhezkazgan Region | **98** | – |
| Refund of past EPT payments | **–** | (60) |
| Recognition of a deferred tax asset resulting from impairment charges | **(21)** | (13) |
| Deferred tax assets on other special items | **(2)** | – |
| **Underlying Profit from continuing operations** | **20** | 191 |
| Net loss attributable to equity shareholders of the Company from discontinued operations | **(1,224)** | (2,335) |
| Special items: | | |
| Subsidiary businesses | | |
| Impairment charge recognised on remeasurement to fair value less costs to sell – MKM | **22** | 17 |
| Loss on disposal of subsidiaries and investment in associate | **529** | 13 |
| Impairment charge recognised on remeasurement to fair value less costs to sell – ENRC | **823** | 2,223 |
| Associate | | |
| Impairment charge recognised by associate | **42** | 316 |
| Onerous contract (utilised)/recognised | **(13)** | 85 |
| Acquisition related transaction costs | **1** | 7 |
| Net gain arising from business combinations | **–** | (23) |
| Taxation effect of special items | | |
| Release of deferred tax liabilities/(assets) resulting from the remeasurement of MKM | **4** | (2) |
| Recognition of deferred tax assets on impairment charges recognised by ENRC | **(14)** | – |
| **Underlying Profit from discontinued operations** | **170** | 301 |
| **Total Underlying Profit** | **190** | 492 |

The Group's net loss attributable to equity holders of the Company from continuing operations was $806 million for the year ended 31 December 2013, down from a profit of $64 million in the prior year. Excluding impairment charges and other special items, Underlying Profit for the year was $20 million from continuing operations compared to $191 million in 2012, due to the reduced profitability in the Mining Division. Underlying Profit from discontinued operations was $170 million compared to $301 million in the prior year and was impacted by the share of post-tax profits for ENRC in 2013 only being recognised to 24 June 2013 compared to a full year in 2012.

## Earnings per share

| $ million (unless otherwise stated) | 2013 | 2012 |
|---|---|---|
| Net loss attributable to equity holders of the Company | **(2,030)** | (2,271) |
| Total Underlying Profit | **190** | 492 |
| Weighted average number of shares in issue (million) | **513** | 524 |
| **EPS – basic and diluted ($)** | | |
| From continuing operations | **(1.57)** | 0.12 |
| From discontinued operations | **(2.39)** | (4.45) |
| | **(3.96)** | (4.33) |
| **EPS based on Underlying Profit ($)** | | |
| From continuing operations | **0.04** | 0.36 |
| From discontinued operations | **0.33** | 0.58 |
| | **0.37** | 0.94 |

Basic earnings per share from continuing and discontinued operations was a loss of $3.96 per share, compared to a loss of $4.33 in the prior year. Earnings per share based on Underlying Profit decreased to $0.37 for the year ended 31 December 2013 from $0.94 in the prior year due to the decrease in Underlying Profit, as explained above, and the reduction in the weighted average number of shares in issue in 2013 arising from the 77,041,147 Kazakhmys PLC shares received as part of the consideration for the ENRC disposal which were subsequently cancelled on 8 November 2013. The share buy-back programme which commenced in September 2011 and completed in May 2012 also contributed to the decrease in the weighted average number of shares in issue in 2013.

## Key financial indicators

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

| | 2013 | 2012 |
|---|---|---|
| Group EBITDA (excluding special items) ($ million) | **1,149** | 1,912 |
| EPS based on Underlying Profit ($) | **0.37** | 0.94 |
| Free Cash Flow ($ million) | **(171)** | 85 |
| Net cash cost of copper after by-product credits excluding purchased concentrate (USc/lb) | **222** | 174 |

## 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. In previous years, share buy-backs and special dividends have been used in addition to the ordinary dividend to return surplus funds to shareholders.

The Company paid dividends of 8.0 US cents per share ($42 million) during the first half of 2013, representing the 2012 final dividend. Taking into consideration the current low level of cash generation, the ongoing asset review and the Group's anticipated increase in net debt during the construction phase of the two major growth projects, the Directors did not declare an interim or recommend a final dividend for 2013. The Board will continue to assess the Group's financial position, its cash flows and growth requirements in determining when to resume dividend payments in the future.

In 2013, the Group received 77,041,147 Kazakhmys PLC shares valued at $319 million as part of the ENRC disposal proceeds which were cancelled. In 2012, a share buy-back programme which had commenced the previous year was completed, repurchasing 6 million shares at a cost of $88 million.

## Cash flows

A summary of cash flows is shown below:

| $ million | 2013 | 2012 |
|---|---|---|
| **Segmental EBITDA before joint venture and associate** | **(599)** | 945 |
| Impairment losses | **712** | 220 |
| Non-cash component of the disability benefits obligation | **(26)** | (149) |
| Loss on disposal of associate, subsidiary and other assets | **543** | 23 |
| Dividends received from associate and joint venture | **–** | 87 |
| Working capital movements [1] | **179** | 64 |
| Interest paid | **(156)** | (85) |
| MET paid | **(259)** | (199) |
| Income tax paid | **(67)** | (142) |
| Foreign exchange and other movements | **(2)** | (17) |
| **Net cash flows from operating activities before other expenditure associated with major projects** | **325** | 747 |
| Sustaining capital expenditure | **(496)** | (662) |
| **Free Cash Flow** | **(171)** | 85 |
| Expansionary and new project capital expenditure | **(757)** | (567) |
| Non-current VAT receivable associated with major projects | **(44)** | (55) |
| Major social projects | **(32)** | (12) |
| Interest received | **12** | 15 |
| Proceeds from disposal of property, plant and equipment | **38** | 51 |
| Proceeds from disposal of investment in associate | **875** | – |
| Proceeds from disposal of subsidiaries, net of cash disposed | **27** | 3 |
| Dividends paid | **(42)** | (121) |
| Purchase of own shares under the Group's share buy-back programme | **–** | (88) |
| Other movements | **(9)** | (22) |
| **Cash flow movement in net debt** | **(103)** | (711) |

[1] Working capital movements exclude any accruals relating to MET and the movement in non-current VAT receivable incurred on capital expenditure relating to the major projects.

### Summary of the year

Net cash flows from operating activities declined following the lower profitability of the Group coupled with higher interest payments and no dividends received, which were only partially offset by a higher working capital inflow over the year. The Group received $902 million from the disposal of ENRC and MKM, net of cash disposed.

On receipt of the $1,249 million net proceeds from the sale of Ekibastuz GRES-1, expected in the first half of 2014, the Group would return to a net funds position on a pro forma basis as at 31 December 2013.

### Dividends received

In 2013, the Group received no dividends from either ENRC or the Ekibastuz GRES-1 joint venture compared to dividends of $59 million from ENRC and $28 million from Ekibastuz GRES-1 received in 2012.

### Working capital

The working capital movements resulting in the $179 million inflow in 2013 are explained below:

- inventory levels declined by $145 million, of which $106 million was from Kazakhmys Mining, $12 million from Kazakhmys Power and $27 million from MKM. At the end of 2012, there was a significant volume of goods in transit which was recognised in 2013 and the Group has been successful in maintaining low levels of copper finished goods inventory throughout 2013. The optimisation programme has also resulted in improved consumables inventory management. MKM's reduction in inventory levels reflects the impact of lower commodity prices on their copper inventory compared to the prior year;
- receivables increased by $185 million due to the timing of cash receipts and changes in product mix. Copper concentrate sales, which commenced following the suspension of the Zhezkazgan smelter, are only settled in full following confirmation of content and quality. In addition, when comparing December 2013 with December 2012, a greater proportion of cathode sales were to China where payment terms under letter of credit are longer than for sales to Europe. Both these factors have contributed to the higher receivables balance at 31 December 2013 with a further $59 million due to seasonal fluctuations at MKM when comparing May 2013, the month in which the disposal was completed, with December 2012;
- prepayments and other current assets fell by $31 million reflecting tight controls over working capital. The reduction in working capital would have been greater, however, delays in the tax authorities conducting a VAT audit in the second half of 2013 has led to an increase in the VAT receivable balance by $22 million; and
- trade and other payables, employee benefits and provisions increased by $188 million in 2013, primarily at Kazakhmys Mining. Of this increase, $138 million related to the disability benefits obligation, mainly due to the assumption of previously insured liabilities by the Group and a change in actuarial assumptions. Trade and other payables also increased by $44 million due to amounts owed to contractors in respect of the major projects.

In the prior year, there was a working capital inflow of $64 million. Overall inventory levels increased by $40 million as the reduction of 69 koz of gold bar stock produced in 2011 was not sufficient to offset increases in other finished goods and larger raw material inventories due to higher input prices. MKM's inventory levels rose due to an increase in volume and a higher copper price. Prepayments and other current assets rose by $177 million in 2012, of which VAT receivable balances increased by $89 million due mainly to a delayed VAT refund, which was received in the first half of 2013. Receivables decreased at Kazakhmys Mining by $52 million, reflecting lower revenues and the timing of receipts. Trade and other payables, employee benefits and provisions increased by $281 million in 2012, of which $168 million related to the disability benefits obligation and $110 million was due to higher trade and other payables, principally for auxiliary services and equipment purchases.

### Interest cash flows

Interest paid during the year was $156 million, $71 million above the interest paid in 2012 of $85 million, primarily due to an increased level of debt outstanding during the year. The average effective interest rate on debt of 5.1% was consistent with the prior year.

### Income taxes and mineral extraction tax

Income tax payments of $67 million were lower than the $142 million in the prior year, reflecting the fall in the Group's profitability. The income tax payments were higher than the income statement charge for current tax of $44 million, as the Group continued to make advance payments in 2013 based on prior year profitability. As a result, the Group's net tax receivable position at 31 December 2013 of $50 million was higher than the $29 million as at 31 December 2012.

MET payments of $259 million were above the income statement charge of $242 million and are expected to result in reduced payments in 2014. MET payments in 2012 were reduced by the $56 million offset of the refund of past EPT payments against the MET liability.

### Free Cash Flow

A higher working capital inflow, lower income tax payments and reduced sustaining capital expenditure partially offset the impact of lower earnings, higher interest and MET payments and no dividends from ENRC or Ekibastuz GRES-1. Free Cash Flow was a negative $171 million including interest payments of $156 million, a decline from a positive $85 million Free Cash Flow in the prior year.

### Capital expenditure

Capital expenditure on sustaining the current business operations was reduced to $496 million from $662 million, and expansionary expenditure rose by $190 million as the Group invested in Bozshakol, Aktogay and the medium-sized projects. Total capital expenditure incurred in the year was $1,253 million, compared to $1,229 million for the year ended 31 December 2012.

### Major social projects

In 2013, the Group spent $32 million (2012: $12 million) as part of the Group's social development programme on major projects in Kazakhstan.

### Investing and financing cash flows

Investing cash flows during 2013 related to the proceeds received from the sale of the investment in ENRC of $875 million, the net cash proceeds from the disposal of MKM of $27 million, proceeds from the disposal of various other assets of $38 million and the payment of the Group's final dividend for 2012 of $42 million. During 2012, investing cash flows related to the Group's share buy-back programme and the payment of the Group's final dividend for 2011 and interim dividend for 2012. In addition, during the year the Group disposed of a number of assets for proceeds of $51 million, principally relating to the sale of two corporate aeroplanes for a total of $30 million.

## Balance sheet

The Group's capital employed position at 31 December 2013 is shown below:

| $ million | **2013** | 2012 |
|---|---|---|
| Equity attributable to owners of the Company | **4,217** | 6,259 |
| Non-controlling interests | **4** | 6 |
| Borrowings | **3,111** | 2,468 |
| **Capital employed** | **7,332** | 8,733 |

### Summary of movements

The Group's attributable loss for the year, mainly related to discontinued operations, the share repurchase on the sale of ENRC of $319 million, a non-cash loss of $94 million mainly recognised in the foreign currency translation reserve and returns to shareholders of $42 million during the year have led to a $2,042 million decrease in equity attributable to holders of the Company to $4,217 million at 31 December 2013.

### Disability benefits obligation

The Group's disability benefits obligation, which is the largest portion of the overall employee benefits obligation, has grown substantially following changes in the Kazakhstan legislation which significantly increased the level of disability payments to be made by companies to disabled employees. During 2013, the Group also agreed to meet the future disability payments that were previously insured as the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. Following this decision by the Group, the existing insurance policy to cover the 2013 future disability payments has been included in the disability benefits obligation net of a corresponding insurance asset for the insurance premiums.

The net employee benefits obligation at 31 December 2013 was $530 million compared to $373 million at 31 December 2012, a net increase of $157 million. The increase is principally attributable to an income statement charge of $203 million, $27 million recognised directly in other comprehensive income, offset by cash payments of $52 million to beneficiaries and $13 million for the plan asset. The income statement charge comprises the assumption of previously insured disability payments of $84 million, treated as a special item, the current service charge of $19 million, interest on the employee benefits obligation of $26 million and $74 million of actuarial valuation movements.

### ENRC

The Group's 26% investment in ENRC had a carrying value of $2,027 million at 31 December 2012. On 8 November 2013 it was disposed of for net proceeds of $1,194 million. The movement during the year represents the Group's share of the post-tax profits to 8 November 2013 of $65 million, which was offset by the Group's share of losses recognised in equity of $75 million, an impairment charge of $823 million and its net disposal proceeds of $1,194 million.

### Ekibastuz GRES-1

The investment in the Ekibastuz GRES-1 joint venture is included on the Group's consolidated balance sheet at 31 December 2013 as an asset classified as held for sale at its equity accounted carrying value of $1,004 million on 5 December 2013, the date the Group accepted an offer for its sale for net proceeds of $1,249 million. As at 31 December 2012 its carrying value was $927 million. The increase during the year represents the Group's share of the post-tax profits to 5 December 2013 of $89 million less the Group's share of losses recognised in equity of $12 million.

### Net debt

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

| $ million | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | **1,715** | 1,246 |
| Current investments | **625** | 515 |
| Borrowings | **(3,111)** | (2,468) |
| **Net debt** | **(771)** | (707) |

Cash and cash equivalents and current investments of the Group's continuing businesses as at 31 December 2013 were $2,340 million, an increase over the $1,761 million as at 31 December 2012, principally due to the receipt of proceeds from the sale of ENRC and draw downs under the Group's major financing facilities. Of the cash and cash equivalents and current investments, approximately $1,120 million has been drawn under the CDB/Samruk-Kazyna financing facilities and $7 million under the CDB Aktogay finance facility. These facilities are intended to be used for the development of the Group's projects under the terms of the individual facility agreements. Current investments are cash deposits with a three to six month maturity profile.

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 within the UK are held primarily with major European and US financial institutions and 'AAA' rated liquidity funds. At 31 December 2013, $2,221 million of cash and short-term deposits were held in the UK and $116 million in Kazakhstan.

Gross borrowings of the Group's continuing operations increased from $2,468 million at 31 December 2012 to $3,111 million at 31 December 2013 (net of arrangement fees) as a result of the final $200 million draw down under the $2.7 billion CDB/Samruk-Kazyna financing facilities, a $57 million draw down under the CDB Aktogay financing facility and a $500 million draw down under the pre-export finance facility. Scheduled repayments totalling $107 million were also made under the CDB/Samruk-Kazyna facilities. The Group had net debt of $771 million at 31 December 2013 compared to $707 million at 31 December 2012.

The CDB/Samruk-Kazyna financing facilities carry interest at US$ LIBOR plus 4.80% and the pre-export finance facility carries interest at US$ LIBOR plus 2.80%. The CDB Aktogay finance facility consists of two separate agreements: the US dollar agreement for up to $1.3 billion and the RMB1.0 billion agreement ($165 million equivalent at the RMB/$ exchange rate as at 31 December 2013). The US dollar agreement attracts interest at US$ LIBOR plus 4.2% and the RMB agreement attracts interest at the applicable benchmark lending rate published by the People's Bank of China.

Borrowings under the CDB/Samruk-Kazyna financing facilities were $2,568 million (excluding amortised fees) compared to $2,468 million at 31 December 2012. Funds drawn under these facilities can only be used for development costs of the projects to which they relate. In January 2014, the Group repaid early $400 million under the CDB/Samruk-Kazyna financing facilities relating to the Akbastau-Kosmurun and Zhomart projects as development of these projects is not expected to commence in the near future.

As at 31 December 2013, the Group had a $100 million revolving credit facility available for standby liquidity and general corporate purposes. This facility has remained undrawn since inception. In addition, the Group had $1,443 million under the CDB Aktogay financing facility available to be drawn down.

## PRINCIPAL RISKS

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

### Operational risks

#### Health and safety

***Risk description***
Mining is a hazardous industry with inherent risks and failure to adopt and embed health and safety management systems could result in harm to Kazakhmys' employees as well as fines and penalties and damage to the Group's reputation. Fatality levels within the Group are higher than at comparable internationally listed mining companies with 18 fatalities recorded for 2013 (2012: 19).

***Impact***
Health and safety incidents could lead to a number of adverse consequences, including harm to people, as well as production disruption, reputational damage and financial loss. The Group has a defined benefits obligation of $530 million (2012: $373 million), the majority of which is in respect of long-term disability allowances payable to current and former employees who suffered workplace injuries. The level of disability payments are indexed to current pay rates within the Group.

***Action***
Kazakhmys recognises that the highest standards of health and safety practices are vital to its success and are a key responsibility of all employees. The Group's policies and procedures in these areas are designed to identify relevant risks and opportunities and provide a clear framework for conducting business. Further details on the measures being taken to improve health and safety practices, including the work of the Group's HSE function, are set out in the Corporate Responsibility Report in the Annual Report and Accounts.

#### Business interruption

***Risk description***
The business of mining, smelting and refining metals and the production of power is resource intensive, and involves a number of risks, including, but not limited to, geological and technological challenges, weather and other natural phenomena such as floods and earthquakes, fires, explosions, equipment failures, delays in supplies and loss of key inputs including electricity, water and coal, which can cause prolonged mine or plant shutdowns or periods of reduced production.

***Impact***
Any disruption to operational activities could have a negative impact on the Group's profitability and cash flows, and may require the Group to make large unplanned capital expenditures. In addition to revenue losses, long-term business interruption could result in a loss of customers and reputational damage.

***Action***
Work is being undertaken across the Group, with the support of appropriate in-house and third-party specialists, to address operational risk issues. The Group has a number of initiatives underway to improve equipment availability and reduce outages. The Group is partially protected from the loss of key assets by the availability of geographically diversified mining and concentrating operations, the option of selling concentrate and access to multiple power sources. A combined property damage and business interruption catastrophic insurance programme is in place which can provide protection from some of the financial impact of a major incident at the Group's main concentrating, smelting and refining facilities and power stations.

#### Political risk

***Risk description***
Most of the Group's mining and power operations are in Kazakhstan. Accordingly, the Group is substantially dependent on the social, political, economic, legal and fiscal conditions prevailing in Kazakhstan.

***Impact***
Changes to Kazakhstan's foreign trade (export and import), foreign investments, property, tax, environmental and subsoil use regimes or social responsibility expectations or other changes that affect the supportive business

environment in Kazakhstan could negatively affect the Group's business, financial position and performance and decisions on future investments.

***Action***

The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia. The Board continues to view the political, social and economic environment within Kazakhstan favourably, and looking forward, remains optimistic about the conditions for business in the region. Kazakhmys maintains a proactive dialogue with the Government of Kazakhstan across a range of issues, including subsoil use regulations, taxation, the environment and social responsibility and community relations.

## New projects

***Risk description***

The development of new projects involves many risks including geological, engineering, procurement, staffing, financing and regulatory risks. If the Group fails to adopt an appropriate procurement and project management strategy, it may experience delays to project schedules and an increase in costs. Regulatory risks include failures to obtain and maintain applicable permits, licences or approvals from the relevant authorities to perform certain development work.

***Impact***

Projects may fail to achieve the desired economic returns due to an inability to recover mineral reserves as planned and higher than expected capital and operating costs. Projects may also fail to complete or suffer delays which may reduce future production volumes and result in a financial loss to the Group. A reduction in future production volumes would also increase the cash cost on a per unit basis. A lack of available funding may prevent projects being completed.

***Action***

Prior to an investment decision being made, certain evaluation activities are performed including, where appropriate, feasibility and other technical studies. Significant projects are subject to the Group's capital appraisal process, including Board review and approval as they progress. There are also a number of planning and monitoring procedures in place addressing the management of capital expenditure. The Group ensures that sufficient expertise, from both in-house and third-party specialists, is utilised on projects throughout their life cycle. In 2013, the Group appointed Non-Ferrous China to provide additional resources to the Bozshakol project, focused on the construction and commissioning of the processing plant. The Group is assessing the Aktogay project and plans to replace the principal contractor with several smaller contracts in 2014. The Projects Assurance Committee regularly assesses the operational and financial status of these projects to identify any material risks to their successful commissioning and start-up. In respect of project funding, Kazakhmys has committed financing in place for Bozshakol and Aktogay. Details on the progress the Group is making with the major projects are included in the Operating Review.

## Change management

***Risk description***

The Group is taking action to cut costs and review discretionary capital expenditure in order to improve the profitability and operating cash flows of the business. An optimisation programme and asset review commenced in 2013 which has resulted in operating cost and capital expenditure savings. Certain production assets and medium-sized projects have been suspended and impairments of $670 million have been recognised, including $596 million in respect of operating Zhezkazgan mines. The optimisation programme and asset review are progressing in 2014, continuing the assessment of production assets and potential labour, material usage and supply chain efficiencies. The asset review could lead to the divestment of certain operations.

***Impact***

The optimisation programme and asset review may not result in the expected benefits being achieved and may itself lead to increased operational risks and additional costs being incurred. A change in use of assets, or revised expectations of their future economic potential, could result in impairment charges being recognised. The divestment of certain operations could result in accounting losses on their disposal and increase the Group's financial gearing. The optimisation programme, asset review and potential divestment of certain operations may adversely affect other initiatives, operational results and negatively impact labour, community and Government relations. Further information on the potential impact of the divestment of certain operations is included under the acquisitions and disposals risk.

***Action***
The Group has formed a cross-functional project team, supported by external advisors, to lead the optimisation programme, asset review and assess the potential divestment of certain operations, which is overseen by the Board. The Group is engaged with key stakeholders, including representatives of the workforce and the local and national Government. The terms of any divestment of operations would also require approval in accordance with London Stock Exchange Rules.

## Labour, mining equipment and supplies

***Risk description***
Commodity price fluctuations can have an impact on industry demand for labour, mining equipment and supplies. In periods of elevated commodity prices competition for skilled personnel intensifies, both internationally and within Kazakhstan, and availability of mining equipment and supplies can be subject to long lead times and cost inflation. The remote location of some of the Group's operations also makes the attraction and retention of skilled staff at these sites more challenging.

***Impact***
Kazakhmys may suffer shortages of skilled workers and delays in obtaining mining equipment and supplies which limit the Group's ability to operate effectively. Coupled with a decline in grades at the Group's mature mines, inflation of employee costs, mining equipment and supplies increase operating and capital costs which affect the Group's financial performance, and these factors together may impact the economic viability of certain mines and projects. In 2013, the total cash operating costs of Kazakhmys Mining rose by 7% and impairments have been recognised on certain assets due to their challenging economic outlook.

***Action***
The Group actively monitors the market for labour and mining equipment and supplies to remain competitive in the hiring of staff and procurement of mining equipment and supplies. Kazakhmys has an extensive social programme for its employees and their dependents and invests in training facilities and staff development to raise skill levels. To mitigate inflationary pressures the Group has an optimisation programme and asset review underway to improve cash generation and is in active discussions with the Government on further measures to improve the Group's financial performance.

## Labour and community relations

***Risk description***
Many of the Group's employees are represented by labour unions under various collective labour agreements. Negotiations of wages may become more difficult in times of higher commodity prices and consequently higher profits in the mining industry, as labour unions may seek wage increases and other forms of additional compensation. In addition, the Group's employees may seek wage increases outside of the collective labour agreements and labour agreements may not prevent a strike or work stoppage.

The Group operates in locations where it is the major employer and may also provide a range of services to the local community such as heat and power. Community expectations are typically complex with the potential for multiple inconsistent stakeholder views that may be difficult to resolve.

***Impact***
Poor employee relations influenced by internal and external factors could result in an unstable workforce that disrupts operations or seeks wage increases and other forms of compensation, having a material adverse effect on the Group's financial performance. In 2013, labour costs at Kazakhmys Mining rose by 7%. The disability benefits obligation within the employee benefits provision is also linked to current wage rates.

The dependence of certain communities on the Group for employment and the provision of services may impose restrictions on the Group's flexibility in taking certain operating decisions which could have a material adverse effect on the Group's financial position. Services provided to communities may also be loss-making and require capital investment thereby adversely impacting the Group's cash flows.

***Action***
A full engagement strategy with community representatives, unions and employees operates within the Group which aims to address concerns raised by different stakeholders. The Group also has an extensive social programme for its employees and their dependents. The Group has succeeded in raising tariffs for certain of the services it provides to communities with the objective ultimately achieving market rates. The Group works closely with the Government on social matters, which has included the transfer of certain social assets to Government

ownership and management. Further details of the Group's social programme are set out in the Corporate Responsibility section.

### Reserves and resources

***Risk description***

Kazakhmys' ore reserves and mineral resources for operating mines and development projects are largely based on the estimation method for ore reserves and mineral resources established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves and mineral resources, and geological, technical and economic assumptions that were valid at the time of estimation may change significantly when new information becomes available. A re-assessment of the future economic potential of the Zhezkazgan mines has resulted in the ore reserves associated with these mines being excluded from the statement of reserves and mineral resources.

***Impact***

Changes in ore reserves and mineral resources could adversely impact mine plans and the economic viability of projects resulting in economic losses, negatively impacting the Group's financial position and performance.

***Action***

The Group's ore reserves and mineral resources are published in accordance with the criteria of the JORC Code and can be found in the Annual Report and Accounts. Kazakhmys engages the services of independent technical experts to annually convert reserve and resource calculations for operating mines and development projects from the in-house method established by the former Soviet Union to the method prescribed by the JORC Code. The Group's ore reserves and mineral resources were last audited in 2010 by an independent technical expert. A project is ongoing to digitise selected mines' ore reserves which will be used in the future for determining estimates of ore reserves and mineral resources and to support improved estimation of ore grades and mine planning.

## Compliance risks

### Subsoil use rights

***Risk description***

In Kazakhstan and certain other countries in which the Group operates all subsoil ore reserves and mineral resources belong to the State. Subsoil use rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. Rights may be terminated if the Group does not satisfy its licensing or contractual obligations, which may include financial commitments to State authorities and the satisfaction of mining, development, environmental, social, health and safety requirements. In recent years, legislation relating to subsoil use rights has come into force in Kazakhstan, which sets out stricter requirements on the performance of licence obligations, technical documentation, work programmes and the level of goods and services sourced from Kazakhstan. The authorities have also increased their monitoring of compliance with legislation and subsoil use contract requirements.

***Impact***

As many of Kazakhstan's subsoil use laws have been adopted relatively recently and remain untested in the country's judicial system, the legal consequences of a given breach may not be predictable. However, non-compliance with the requirements of subsoil use contracts could potentially lead to regulatory challenges and subsequently to fines and litigation, and ultimately to the loss of operating licences. The loss of any of the Group's subsoil use rights could have a material adverse effect on its mining operations.

***Action***

The Group's management makes every effort to engage with the relevant regulatory authorities and ensure compliance with all relevant legislation and subsoil use contracts. The Group's procedures to ensure compliance with the terms of subsoil contracts have been updated to reflect the requirements of legislation, including more active procurement of goods and services from Kazakhstan. In 2013, 68% of goods and services used by the Mining Division were sourced from Kazakhstan. A specialist department is also tasked with monitoring compliance with the terms of the subsoil use contracts.

### Environmental compliance

#### *Risk description*

The Group operates in an industry that is subject to numerous environmental laws and regulations. As regulatory standards and requirements continually develop, the Group may be exposed to increased compliance costs and environmental emission charges. Policies and measures at a national and international level to tackle climate change will increasingly affect the business, thereby presenting greater environmental and regulatory risks.

#### *Impact*

A violation of environmental laws, or failure to comply with the instructions of the relevant authorities, could lead to the suspension of operating licences, challenges to subsoil use mining rights, fines and penalties, the imposition of costly compliance procedures, reputational damage and financial loss. New or amended environmental legislation or regulations may result in increased operating costs, additional capital investment or, in the event of the Group's non-compliance, the possibility of fines, penalties or other actions which may adversely affect the Group's financial performance and reputation. Emissions charges in Kazakhstan have been increased over recent years and the authorities are adopting an increasingly robust stance on compliance with environmental standards.

#### *Action*

The Group has policies and procedures in place which set out the required operating standards for all employees. Kazakhmys monitors its emissions and in recent years has invested in reducing its environmental emissions. The Group liaises with the relevant governmental bodies on environmental matters, including the development of new legislation. Further details of the environmental measures being taken by the Group are set out in the Corporate Responsibility section.

## Financial risks

### Commodity prices

#### *Risk description*

The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international global metal exchanges. The Group's financial results are strongly influenced by commodity prices, in particular copper and the major by-products, gold, silver and zinc. The prices for these metals are dependent on a number of factors, including world supply and demand and investor sentiment. In particular, Kazakhmys is exposed to demand from China as described below, a major consumer of the metals which the Group produces. Due to these factors, commodity prices may be subject to significant fluctuations, which could have a positive or negative impact on the Group's financial results.

#### *Impact*

Commodity prices can fluctuate widely and could have a material impact on the Group's asset values, revenues, earnings, cash flows and growth prospects.

#### *Action*

The Group keeps under regular review its sensitivity to fluctuations in commodity prices. The Group does not as a matter of course hedge commodity prices, but may enter into a hedge programme for certain commodities where the Board determines it is in the Group's interest to provide greater certainty over future cash flows. The Group adopts a prudent approach in its financial planning and investment appraisal, reflecting the volatility in commodity prices.

### Exposure to China

#### *Risk description*

In addition to the impact of Chinese demand on the pricing of Kazakhmys' major products, as noted under the Commodity Prices risk above, the Group makes significant physical sales to a limited number of customers in China. In 2013, sales to China accounted for 57% of Kazakhmys Mining's revenues. The proportion of sales into China has increased following the suspension of the Zhezkazgan smelter in 2013 which has led to the sale of concentrate, and Chinese sales are likely to increase further when production commences from the two major growth projects, Bozshakol and Aktogay. The Group uses contractors and materials from China. China is also an important source of financing to the Group with long-term debt facilities secured totalling $4.2 billion, primarily for the development of Bozshakol and Aktogay.

***Impact***
Changes to China's fiscal or regulatory regimes or lower Chinese copper consumption could reduce demand in China for the Group's major products, leading the Group to direct a greater volume of sales to its other major market, Europe. Changes to Chinese government policy on credit or cross border lending may affect the availability of Chinese bank lending to the Group.

***Action***
The Group has historically sold a significant volume of its copper cathode production into Europe, as well as into China, thereby taking advantage of its geographic position which provides access to both major markets. In the event that demand reduced in China for the Group's finished products, Kazakhmys would allocate its sales between the two markets to obtain the best commercial terms. The financing line for Bozshakol has been drawn and the Aktogay loan agreement is a committed loan facility, thereby providing greater certainty over the funding of the Group's growth projects. Kazakhmys also maintains relationships with a number of international lending banks, having secured a $1 billion pre-export finance facility in December 2012, and has the flexibility to consider other sources of capital such as the bond or equity markets, if so required.

## Acquisitions and divestments

***Risk description***
In the course of delivering its strategy, the Group may acquire or dispose of assets or businesses. Corporate transactions may, however, fail to achieve the expected benefit or value to the Group.

***Impact***
Changing market conditions, incorrect assumptions or deficiencies in due diligence processes could result in acquisitions failing to deliver the expected benefit or value to the Group, leading to adverse financial performance and failure to meet expectations. Acquisitions could also lead to the Group assuming liability for the past acts of acquired businesses, without recourse to other parties. The disposal of assets or businesses may not achieve the expected proceeds due to changing market conditions or deficiencies in the sales process.

***Action***
Specialised staff are assigned to manage corporate transactions, supported where appropriate by external advisors. Due diligence processes are undertaken on acquisitions and material transactions are subject to Board review and approval, including ensuring the transaction is aligned with the Group's strategy, consideration of the key assumptions being applied and the risks identified.

## Liquidity risk

***Risk description***
The Group is exposed to liquidity risks, including the risk that borrowing facilities are not available to meet cash requirements, and the risk that financial assets cannot readily be converted to cash without the loss of value.

***Impact***
Failure to manage financing risks could have a material impact on the Group's cash flows, earnings and financial position as well as reducing the funds available to the Group for working capital, capital expenditure, acquisitions, dividends and other general corporate purposes.

***Action***
The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. Surplus funds within the Group are held predominantly in the UK in order to manage counterparty and liquidity risk. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group's financial position, cash flows and future capital commitments. Kazakhmys adopts a prudent approach in managing its liquidity risk, reflecting the volatility in commodity prices. In 2013, the Group sold its ENRC investment and has agreed the sale of its 50% holding in Ekibastuz GRES-1 for combined cash proceeds in excess of $2.0 billion. The Group has secured committed funding for the development of Bozshakol and Aktogay. A $1.0 billion pre-export finance facility was secured in December 2012 for general corporate purposes and to provide additional liquidity during the development of the major projects which was $500 million drawn at 31 December 2013, the date the availability period expired. Further details are set out in the Financial Review.

### Taxation

***Risk description***

As the tax legislation in Kazakhstan has been in force for a relatively short period of time, tax risks in Kazakhstan are substantially greater than typically found in countries with more established tax systems. Tax law is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. Tax regulation and compliance is subject to review and investigation by the authorities who may impose severe fines, penalties and interest charges.

***Impact***

The uncertainty of interpretation, application and the evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's cash flows, financial performance and position.

***Action***

The Group makes every effort to comply with existing tax legislation, and works closely with the Government and tax authorities in the review of proposed amendments to tax legislation and regulation. Further details of the Group's tax strategy and risk management are set out in the Financial Review.

## DIRECTORS' RESPONSIBILITY STATEMENT

Each Director confirms to the best of his knowledge that:

- the Group and Parent Company accounts, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

| $ million (unless otherwise stated) | Notes | 2013 | 2012 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenues | 3(b) | **3,099** | 3,353 |
| Cost of sales | | **(2,110)** | (2,023) |
| **Gross profit** | | **989** | 1,330 |
| Selling and distribution expenses | | **(73)** | (64) |
| Administrative expenses | | **(819)** | (805) |
| Net other operating expenses | | **(10)** | (17) |
| Impairment losses | 5 | **(689)** | (202) |
| **(Loss)/profit before finance items and taxation** | | **(602)** | 242 |
| Analysed as: | | | |
| Profit before finance items and taxation (excluding special items) | | **166** | 442 |
| Special items | 4 | **(768)** | (200) |
| Finance income | 8 | **45** | 64 |
| Finance costs | 8 | **(124)** | (155) |
| **(Loss)/profit before taxation** | | **(681)** | 151 |
| Income tax expense | 9 | **(127)** | (86) |
| **(Loss)/profit for the year from continuing operations** | | **(808)** | 65 |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 7(d) | **(1,224)** | (2,335) |
| **Loss for the year** | | **(2,032)** | (2,270) |
| Attributable to: | | | |
| Equity holders of the Company | | **(2,030)** | (2,271) |
| Non-controlling interests | | **(2)** | 1 |
| | | **(2,032)** | (2,270) |
| **Earnings per share attributable to equity holders of the Company – basic and diluted** | | | |
| From continuing operations ($) | 10(a) | **(1.57)** | 0.12 |
| From discontinued operations ($) | 10(a) | **(2.39)** | (4.45) |
| | | **(3.96)** | (4.33) |
| **EPS based on Underlying Profit – basic and diluted** | | | |
| From continuing operations ($) | 10(b) | **0.04** | 0.36 |
| From discontinued operations ($) | 10(b) | **0.33** | 0.58 |
| | | **0.37** | 0.94 |

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

| $ million | Notes | 2013 | 2012 |
|---|---|---|---|
| **Loss for the year** | | **(2,032)** | (2,270) |
| **Other comprehensive income/(expense) for the year after tax:** | | | |
| Items that will never be reclassified to the income statement: | | | |
| Actuarial losses on employee benefits, net of tax | | **(22)** | – |
| | | **(22)** | – |
| Items that are or may be reclassified subsequently to the income statement: | | | |
| Exchange differences on retranslation of foreign operations | | **(60)** | (50) |
| Recycling of exchange differences on disposal of subsidiary | | **2** | – |
| Recycling of capital reserves on disposal of associate | | **511** | – |
| Share of other comprehensive losses of joint venture | 12 | **(12)** | (9) |
| Share of other comprehensive losses of associate | 13 | **(75)** | (33) |
| | | **366** | (92) |
| **Other comprehensive income/(expense) for the year** | | **344** | (92) |
| **Total comprehensive expense for the year** | | **(1,688)** | (2,362) |
| Attributable to: | | | |
| Equity holders of the Company | | **(1,686)** | (2,363) |
| Non-controlling interests | | **(2)** | 1 |
| | | **(1,688)** | (2,362) |

## CONSOLIDATED BALANCE SHEET

At 31 December 2013

| $ million | Notes | **2013** | 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | | **52** | 64 |
| Property, plant and equipment | | **2,754** | 2,448 |
| Mining assets | | **558** | 614 |
| Investment in joint venture | 12 | **–** | 927 |
| Investment in associate | 13 | **–** | 2,027 |
| Other non-current assets | | **647** | 532 |
| Deferred tax asset | | **21** | 87 |
| | | **4,032** | 6,699 |
| **Current assets** | | | |
| Inventories | | **610** | 750 |
| Prepayments and other current assets | | **325** | 380 |
| Income taxes receivable | | **59** | 30 |
| Trade and other receivables | | **235** | 122 |
| Investments | | **625** | 515 |
| Cash and cash equivalents | | **1,715** | 1,246 |
| | | **3,569** | 3,043 |
| Assets classified as held for sale | | **1,018** | 251 |
| | | **4,587** | 3,294 |
| **Total assets** | | **8,619** | 9,993 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 14(a) | **171** | 200 |
| Share premium | | **2,650** | 2,650 |
| Capital reserves | 14(c) | **(541)** | (932) |
| Retained earnings | | **1,937** | 4,341 |
| **Attributable to equity holders of the Company** | | **4,217** | 6,259 |
| Non-controlling interests | | **4** | 6 |
| **Total equity** | | **4,221** | 6,265 |
| **Non-current liabilities** | | | |
| Borrowings | 15 | **2,608** | 2,439 |
| Deferred tax liability | | **14** | 1 |
| Employee benefits | 16 | **477** | 330 |
| Provisions | | **98** | 100 |
| | | **3,197** | 2,870 |
| **Current liabilities** | | | |
| Trade and other payables | | **631** | 622 |
| Borrowings | 15 | **503** | 29 |
| Income taxes payable | | **9** | 1 |
| Employee benefits | 16 | **53** | 43 |
| Provisions | | **5** | 5 |
| | | **1,201** | 700 |
| Liabilities directly associated with assets classified as held for sale | | **–** | 158 |
| | | **1,201** | 858 |
| **Total liabilities** | | **4,398** | 3,728 |
| **Total equity and liabilities** | | **8,619** | 9,993 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

| $ million | Notes | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash flow from operations before interest, income taxes and dividends from associate and joint venture | 17 | **504** | 832 |
| Interest paid | | **(156)** | (85) |
| Income taxes paid | | **(67)** | (142) |
| Dividends from associate and joint venture | | **–** | 87 |
| **Net cash flows from operating activities** | | **281** | 692 |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | **12** | 15 |
| Proceeds from disposal of property, plant and equipment and mining assets | | **38** | 51 |
| Purchase of intangible assets | | **(18)** | (13) |
| Purchase of property, plant and equipment | | **(1,120)** | (1,019) |
| Investments in mining assets | | **(147)** | (209) |
| Licence payments for subsoil contracts | | **(6)** | (5) |
| Acquisition of non-current investments | | **(3)** | (15) |
| Acquisition of non-controlling interest in subsidiary | | **–** | (2) |
| Movement in short-term bank deposits | 18 | **(110)** | 282 |
| Proceeds from disposal of associate | | **875** | – |
| Disposal of subsidiary, net of cash disposed | | **27** | 3 |
| **Net cash flows used in investing activities** | | **(452)** | (912) |
| | | | |
| **Cash flows from financing activities** | | | |
| Purchase of own shares under the Group's share buy-back programme | | **–** | (88) |
| Proceeds from borrowings – net of arrangement fees paid of $22 million (2012: $18 million) | | **790** | 1,183 |
| Repayment of borrowings | | **(107)** | (614) |
| Dividends paid by the Company | 11 | **(42)** | (121) |
| **Net cash flows from financing activities** | | **641** | 360 |
| | | | |
| **Net increase in cash and cash equivalents** | 18 | **470** | 140 |
| Cash and cash equivalents at the beginning of the year | | **1,250** | 1,111 |
| Effect of exchange rate changes on cash and cash equivalents | 18 | **(5)** | (1) |
| **Cash and cash equivalents at the end of the year** | | **1,715** | 1,250 |

The consolidated statement of cash flows includes cash flows from both continuing and discontinued operations.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

| | | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $ million | Notes | Share capital | Share premium | Capital reserves [1] | Retained earnings | Total | Non-controlling interests | Total equity |
| At 1 January 2012 | | 200 | 2,650 | (840) | 6,815 | 8,825 | 7 | 8,832 |
| (Loss)/profit for the year | | – | – | – | (2,271) | (2,271) | 1 | (2,270) |
| Exchange differences on retranslation of foreign operations | | – | – | (50) | – | (50) | – | (50) |
| Share of losses of joint venture recognised in other comprehensive income | 12 | – | – | (9) | – | (9) | – | (9) |
| Net share of losses of associate recognised in other comprehensive income | 13 | – | – | (33) | – | (33) | – | (33) |
| Total comprehensive (expense)/income for the year | | – | – | (92) | (2,271) | (2,363) | 1 | (2,362) |
| Acquisition of non-controlling interest in subsidiary | 14(a) | – | – | – | – | – | (2) | (2) |
| Share-based payment | | – | – | – | 6 | 6 | – | 6 |
| Own shares acquired under the Group's share buy-back programme | 14(b) | – | – | – | (88) | (88) | – | (88) |
| Dividends paid by the Company | 11 | – | – | – | (121) | (121) | – | (121) |
| **At 31 December 2012** | | 200 | 2,650 | (932) | 4,341 | 6,259 | 6 | 6,265 |
| Loss for the year | | **–** | **–** | **–** | **(2,030)** | **(2,030)** | **(2)** | **(2,032)** |
| Exchange differences on retranslation of foreign operations | | **–** | **–** | **(60)** | **–** | **(60)** | **–** | **(60)** |
| Recycling of exchange differences on disposal of subsidiary | 6(a) | **–** | **–** | **2** | **–** | **2** | **–** | **2** |
| Recycling of capital reserves on disposal of associate | 6(b) | **–** | **–** | **511** | **–** | **511** | **–** | **511** |
| Share of losses of joint venture recognised in other comprehensive income | 12 | **–** | **–** | **(12)** | **–** | **(12)** | **–** | **(12)** |
| Net share of losses of associate recognised in other comprehensive income | 13 | **–** | **–** | **(75)** | **–** | **(75)** | **–** | **(75)** |
| Actuarial losses on employee benefits, net of $5 million tax | 16 | **–** | **–** | **–** | **(22)** | **(22)** | **–** | **(22)** |
| Total comprehensive expense for the year | | **–** | **–** | **366** | **(2,052)** | **(1,686)** | **(2)** | **(1,688)** |
| Share-based payment | | **–** | **–** | **–** | **5** | **5** | **–** | **5** |
| Purchase of Company's share capital on disposal of associate | 14(a),(c) | **(29)** | **–** | **25** | **(315)** | **(319)** | **–** | **(319)** |
| Dividends paid by the Company | 11 | **–** | **–** | **–** | **(42)** | **(42)** | **–** | **(42)** |
| **At 31 December 2013** | | **171** | **2,650** | **(541)** | **1,937** | **4,217** | **4** | **4,221** |

[1] Refer to note 14(c) for an analysis of 'Capital reserves'.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Year ended 31 December 2013

### 1. Corporate information

Kazakhmys PLC (the 'Company') is a public limited company incorporated in the United Kingdom of Great Britain and Northern Ireland. The Company's registered address is 6th Floor, Cardinal Place, 100 Victoria Street, London SW1E 5JL, United Kingdom. The Group comprises the Company and its consolidated divisions as set out in note 3.

### 2. Basis of preparation

The financial information for the year ended 31 December 2013 does not constitute statutory accounts as defined in Sections 435(1) and (2) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting convened for 8 May 2014. The auditor has reported on these accounts; their reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

#### (a) Going concern

The Group's business activities, together with the factors likely to impact its future growth and operating performance are set out in the Operating Review section of these audited results. The financial position of the Group, its cash flows, financial risk management policies and available debt facilities are described in the Financial Review section of these audited results. In addition, the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to commodity prices, interest rates and foreign exchange are set out in the Notes to the Financial Statements in the Annual Report and Accounts.

In 2013, the Group completed the disposal of its investment in ENRC for $875 million and agreed the sale of its 50% investment in the Ekibastuz GRES-1 power station for $1.25 billion. The proceeds from the sale of Ekibastuz GRES-1 are expected in the first half of 2014, and will significantly strengthen the balance sheet as the Group proceeds with the development of the two major growth projects.

At 31 December 2013, the Group's net debt was $771 million with total undrawn committed facilities of $1.54 billion. The net sales proceeds from the Ekibastuz GRES-1 disposal of $1.25 billion will significantly enhance the Group's liquidity position and provide greater financial security until the first of the Group's major growth projects comes on stream.

During 2013, the Group had fully drawn its $2.7 billion loan facilities for the funding of the Group's major development project at Bozshakol, the gold/copper project at Bozymchak and other mid-sized projects. The first principal repayments commenced in 2013 with $107 million repaid to date. The maturity profile of the Group's outstanding debt is long dated with the total drawn balance of $2.6 billion repayable in maturities extending out for 12 years. In January 2014, $400 million of this facility relating to two mid-sized projects was repaid early as development of these projects is not expected to commence in the near term.

In 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. Of this facility $57 million was drawn down at 31 December 2013. The funds are available to draw down over a three year period commencing from 31 December 2012 and mature 15 years from the date of the first draw down. At 31 December 2013, $1.44 billion remained undrawn under the facility.

In December 2012, the Group signed a five year pre-export finance facility for $1.0 billion to provide additional liquidity during the period of the development of the major development projects at Bozshakol and Aktogay and for general corporate purposes. The facility was reduced to $500 million on 31 December 2013, being the amount drawn at the end of the availability period. The principal repayments will amortise over a three year period commencing in January 2015 until final maturity in December 2017. In addition, the Group has a $100 million revolving credit facility available for standby liquidity and general corporate purposes. This facility has remained undrawn since inception. Therefore, the Group has future funding and additional liquidity of $1.54 billion available in the short to medium term, with $1.44 billion of this amount available only for the development of the Aktogay copper project.

The Directors have considered the Group's financial position, the available borrowing facilities, the planned capital expenditure programme and the outlook for the Group's products and major projects, and believe there is sufficient funding available to meet the Group's anticipated cash flow requirements. The Board is mindful of the

Group's exposure to a single commodity and to the successful delivery of the Group's major growth projects in the medium term. A severe downturn in the copper price or material adverse developments on the growth projects would impact future funding requirements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

### (b) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in US dollars ($) and all financial information has been rounded to the nearest million dollars ($ million) except when otherwise indicated.

### (c) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2013 and the Group's financial performance for the year ended 31 December 2013.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This treatment may mean that amounts previously recognised in other comprehensive income are recycled through the income statement.

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests primarily represent the interests in Kazakhmys LLC not held by the Company. The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### (d) Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union (EU), and in accordance with the provisions of the Companies Act 2006.

## 3. Segment information

Information provided to the Group's Board of Directors for the purposes of resource allocation and the assessment of segmental performance is prepared in accordance with the management and operational structure of the Group. For management and operational purposes, the Group is organised into three separate businesses as shown below, according to the nature of their operations, end-products and services rendered. Each of these business units represents an operating segment in accordance with IFRS 8 'Operating segments'. The operating segments of the Group are:

*Kazakhmys Mining*

The Kazakhmys Mining business is managed as one operating segment and comprises all entities and functions within the Group responsible for the exploration, evaluation, development, mining and processing of the Group's mineral resources and sale of the Group's metal products. The segment consists of:

- the Group's main operating entity, Kazakhmys LLC, whose principal activity is the mining and processing of copper and other metals which are produced as by-products;

- the Group's smelting operations, Kazakhmys Smelting LLC, whose principal activity is the refining of copper and other metals which are produced as by-products by Kazakhmys LLC;
- the Group's UK trading function, Kazakhmys Sales Limited, which is responsible for the purchase of exported products from Kazakhmys LLC and subsequently applies an appropriate mark-up prior to onward sale to third parties. The UK entity is a sales function on behalf of the Kazakhmys Mining business and consequently the assets and liabilities related to those trading operations, i.e. trade payables and trade receivables, are included within the Kazakhmys Mining operating segment;
- the Group's exploration companies which provide services for greenfield drilling on new projects and deposits, brownfield drilling on expansion projects and deposits at existing mines, and exploration work for potential new projects and deposits for the Mining segment;
- the Group's project companies, whose responsibility is the development of metal production related assets on behalf of the Mining segment including the evaluation and development of the Group's major mining projects; and
- the Group's technical and ancillary services which provide technical, logistics and other services principally to the Mining segment and which are managed as an extension of the Mining segment.

The financial and operating information used by the Board of Directors for the purpose of resource allocation to all these separate functions and entities is included within the Mining segment.

*Kazakhmys Power*

Kazakhmys Power operates in Kazakhstan and consists of the Group's three captive power stations and the Ekibastuz GRES-1 coal-fired power station joint venture. The principal activity of the Kazakhmys Power operating segment is the sale of electricity and coal to external customers and internally to the Kazakhmys Mining segment. The captive power stations and the Group's 50% interest in the Ekibastuz GRES-1 coal-fired power station are managed by the same management team and produce discrete financial and operating information that is used by the Board of Directors for operational and resource allocation decisions. On 5 December 2013 the Group's Board of Directors accepted an offer to sell the 50% interest in Ekibastuz GRES-1 and the Group's investment in Kazhydrotechenergo LLP ('Kaz Hydro'). The offer was approved by Kazakhmys shareholders on 7 January 2014 with completion dependent on certain conditions precedent. As a result, Ekibastuz GRES-1 and Kaz Hydro have been classified as assets held for sale with Ekibastuz GRES-1 classified as a discontinued operation at 5 December 2013. The share of profits from Ekibastuz GRES-1 for the period ended 5 December 2013 is now recognised within discontinued operations in the consolidated income statement. The consolidated income statement for the comparative period has been restated to conform to this presentation.

*MKM*

MKM operates in Germany, where it manufactures copper and copper alloy semi-finished products. The business was sold on 28 May 2013. At 31 December 2012, MKM was classified as an asset held for sale and as a discontinued operation. MKM faced different risks to the Group's other businesses, and produced different products. It was therefore shown as a separate operating segment.

*Managing and measuring operating segments*

The key performance measure of the operating segments is EBITDA (excluding special items), which is defined as profit before interest, taxation, depreciation, depletion, amortisation, the non-cash component of the disability benefits obligation and mineral extraction tax, as adjusted for special items. Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business (see note 4).

The Group's Treasury department monitors finance income and finance costs at the Group level on a net basis rather than on a gross basis at an operating segment level.

Inter-segment sales include power sales from Kazakhmys Power to Kazakhmys Mining from the Group's captive power stations, and coal sales from Kazakhmys Mining to Kazakhmys Power from the Borly coal mines.

## (a) Operating segments

### *(i) Income statement information*

| $ million | Kazakhmys Mining | MKM | Kazakhmys Power[1] | Corporate Services | Total | Discontinued operations: Income statement | Discontinued operations: Joint venture[1,2] | Discontinued operations: Other[2] |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | | | | | |
| **Revenues** | | | | | | | | |
| Segment sales | **3,058** | **595** | **472** | **–** | **4,125** | | | |
| Inter-segment sales | **(55)** | **–** | **(128)** | **–** | **(183)** | | | |
| **Sales to external customers** | **3,003** | **595** | **344** | **–** | **3,942** | **3,099** | **248** | **595** |
| **Gross profit** | **938** | **28** | **182** | **–** | **1,148** | **989** | **131** | **28** |
| Operating costs | **(855)** | **(29)** | **(31)** | **(30)** | **(945)** | **(902)** | **(14)** | **(29)** |
| Impairment losses [3] | **(622)** | **(23)** | **(66)** | **(3)** | **(714)** | **(689)** | **(2)** | **(23)** |
| Loss on disposal of subsidiary and associate [4] | **–** | **(1)** | **–** | **(528)** | **(529)** | **–** | **–** | **(529)** |
| **Segmental (loss)/profit before finance items and taxation** | **(539)** | **(25)** | **85** | **(561)** | **(1,040)** | **(602)** | **115** | **(553)** |
| Share of losses from associate [2] | | | | | **(758)** | **–** | **–** | **(758)** |
| Share of profits from joint venture [2] | | | | | **–** | **–** | **(89)** | **89** |
| Net finance costs | | | | | **(83)** | **(79)** | **(3)** | **(1)** |
| Income tax expense | | | | | **(151)** | **(127)** | **(23)** | **(1)** |
| **Loss for the year** | | | | | **(2,032)** | **(808)** | **–** | **(1,224)** |

| $ million | Kazakhmys Mining | MKM | Kazakhmys Power[1] | Corporate Services | Total | Discontinued operations: Income statement | Discontinued operations: Joint venture[1,2] | Discontinued operations: Other[2] |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2012 | | | | | | | | |
| **Revenues** | | | | | | | | |
| Segment sales | 3,362 | 1,466 | 459 | – | 5,287 | | | |
| Inter-segment sales | (77) | – | (101) | – | (178) | | | |
| **Sales to external customers** | 3,285 | 1,466 | 358 | – | 5,109 | 3,353 | 290 | 1,466 |
| **Gross profit** | 1,316 | 107 | 191 | – | 1,614 | 1,330 | 177 | 107 |
| Operating costs | (806) | (58) | (39) | (55) | (958) | (878) | (22) | (58) |
| Impairment losses | (202) | (18) | – | – | (220) | (202) | – | (18) |
| Loss on disposal of subsidiary [5] | (8) | – | – | (13) | (21) | (8) | – | (13) |
| **Segmental profit/(loss) before finance items and taxation** | 300 | 31 | 152 | (68) | 415 | 242 | 155 | 18 |
| Share of losses from associate [2] | | | | | (2,481) | – | – | (2,481) |
| Share of profits from joint venture [2] | | | | | – | – | (126) | 126 |
| Net finance (costs)/income | | | | | (93) | (91) | 3 | (5) |
| Income tax (expense)/credit | | | | | (111) | (86) | (32) | 7 |
| **(Loss)/profit for the year** | | | | | (2,270) | 65 | – | (2,335) |

1 For segment reporting, the Group includes its 50% share of the income statement line items that relate to Ekibastuz GRES-1 on a line-by-line basis, whereas in the Group's income statement, the financial results of Ekibastuz GRES-1 are included within 'share of profits from joint venture' within discontinued operations. On 5 December 2013, Ekibastuz GRES-1 was reclassified as a discontinued operation following the Board of Directors' acceptance of an offer from Samruk-Energo for the investment.

2 For the year ended 31 December 2013 discontinued operations comprise the results of MKM for the period up to its disposal on 28 May 2013, the share of post-tax results from the Group's investment in Ekibastuz-GRES-1 up to 5 December 2013 and the share of post-tax results from the Group's investment in ENRC up to 24 June 2013. For the year ended 31 December 2012 discontinued operations comprised MKM, the Group's investments in Ekibastuz GRES-1 and ENRC as well as the impact of the completion adjustment relating to the disposal of Kazakhmys Petroleum (see footnote 5 below).

3 For the year ended 31 December 2013, following the reclassification of ENRC as a discontinued operation, the impairment charge of $823 million recognised to write the investment down to fair value less costs to sell is included within discontinued operations. The $22 million impairment charge to write down MKM to its fair value less costs to sell is also included within discontinued operations.

4 On 28 May 2013 the Group sold its German subsidiary, MKM (see note 6(a)). In addition, on 8 November 2013 the Group completed the sale of the Group's investment in ENRC recognising a loss on disposal of $528 million.

5 In the year ended 31 December 2012 the Group disposed of a subsidiary company in Kazakhstan, included within Kazakhmys Mining, for proceeds of $3 million which resulted in the recognition of a loss of $8 million on disposal (see note 6(c)). The $13 million loss on disposal within the Corporate Services segment represents the completion adjustment on the sale of Kazakhmys Petroleum.

### *(ii) Earnings before interest, tax, non-cash component of the disability benefits obligation, depreciation and amortisation (EBITDA) excluding special items*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Year ended 31 December 2013** | | | | | | | |
| | | | | | | **Discontinued operations** | | |
| $ million | **Kazakhmys Mining** | **MKM** | **Kazakhmys Power[1]** | **Corporate Services** | **Total** | **Income statement** | **Joint venture[1,2]** | **Other[2]** |
| (Loss)/profit before finance items and taxation [1] | **(539)** | **(25)** | **59** | **(561)** | **(1,066)** | **(602)** | **89** | **(553)** |
| Interest and taxation of joint venture [1] | **–** | **–** | **26** | **–** | **26** | **–** | **26** | **–** |
| **Segmental (loss)/profit before finance items and taxation [1]** | **(539)** | **(25)** | **85** | **(561)** | **(1,040)** | **(602)** | **115** | **(553)** |
| Add: non-cash component of the disability benefits obligation [3] | **26** | **–** | **–** | **–** | **26** | **26** | **–** | **–** |
| Add: depreciation, depletion and amortisation | **261** | **–** | **64** | **1** | **326** | **288** | **38** | **–** |
| Add: mineral extraction tax [4] | **242** | **–** | **–** | **–** | **242** | **242** | **–** | **–** |
| **Segmental EBITDA** | **(10)** | **(25)** | **149** | **(560)** | **(446)** | **(46)** | **153** | **(553)** |
| Special items – note 4: | | | | | | | | |
| Add: additional disability benefits obligation charge | **84** | **–** | **–** | **–** | **84** | **84** | **–** | **–** |
| Add: impairment charges | **617** | **22** | **52** | **1** | **692** | **670** | **–** | **22** |
| Add: loss on disposal of assets | **14** | **1** | **–** | **528** | **543** | **14** | **–** | **529** |
| **Segmental EBITDA (excluding special items)** | **705** | **(2)** | **201** | **(31)** | **873** | **722** | **153** | **(2)** |
| Share of EBITDA of associate [2,5] | **–** | **–** | **–** | **276** | **276** | **–** | **–** | **276** |
| **Group EBITDA (excluding special items)** | **705** | **(2)** | **201** | **245** | **1,149** | **722** | **153** | **274** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December 2012 | | | | | | | |
| | | | | | | Discontinued operations | | |
| $ million | Kazakhmys Mining | MKM | Kazakhmys Power[1] | Corporate Services | Total | Income statement | Joint venture[12] | Other[2] |
| Profit/(loss) before finance items and taxation [1] | 300 | 31 | 123 | (68) | 386 | 242 | 126 | 18 |
| Interest and taxation of joint venture [1] | – | – | 29 | – | 29 | – | 29 | – |
| **Segmental profit/(loss) before finance items and taxation [1]** | 300 | 31 | 152 | (68) | 415 | 242 | 155 | 18 |
| Add: non-cash component of the disability benefits obligation [3] | 149 | – | – | – | 149 | 149 | – | – |
| Add: depreciation, depletion and amortisation | 251 | – | 56 | 3 | 310 | 276 | 34 | – |
| Add: mineral extraction tax [4] | 260 | – | – | – | 260 | 260 | – | – |
| **Segmental EBITDA** | 960 | 31 | 208 | (65) | 1,134 | 927 | 189 | 18 |
| Special items – note 4: | | | | | | | | |
| Add: impairment charges | 192 | 17 | – | – | 209 | 192 | – | 17 |
| Add: loss on disposal of assets | 8 | – | – | 13 | 21 | 8 | – | 13 |
| **Segmental EBITDA (excluding special items)** | 1,160 | 48 | 208 | (52) | 1,364 | 1,127 | 189 | 48 |
| Share of EBITDA of associate [2,5] | – | – | – | 548 | 548 | – | – | 548 |
| **Group EBITDA (excluding special items)** | 1,160 | 48 | 208 | 496 | 1,912 | 1,127 | 189 | 596 |

1 As the (loss)/ profit for the year from discontinued operations in the consolidated income statement includes the equity accounted profit from the joint venture, Ekibastuz GRES-1, on a post-interest and tax basis, the joint venture's interest and taxation expenses are added back to calculate the (loss)/ profit before finance items and taxation from discontinued operations of the Group on a consistent pre-interest and tax basis.

2 For the year ended 31 December 2013, discontinued operations comprise the results of MKM for the period up to 28 May 2013, the share of post-tax results from the Group's joint venture investment in Ekibastuz GRES-1 up to 5 December 2013 and the share of results from the Group's investment in ENRC up to 24 June 2013. For the year ended 31 December 2012, discontinued operations comprised MKM, the Group's investments in Ekibastuz GRES-1 and ENRC as well as the impact of the completion adjustment relating to the disposal of Kazakhmys Petroleum.

3 The non-cash component of the Group's disability benefits obligation has been excluded from EBITDA as EBITDA, a key financial indicator, is a proxy for cash earnings from current trading performance. The non-cash component of the disability benefits obligation is determined as the actuarial remeasurement charge recognised in the income statement less the actual cash payments disbursed during the year in respect of the disability benefits obligation.

4 Mineral extraction tax has been excluded from the key financial indicator of EBITDA. The Directors believe that MET is a substitute for a tax on profits, hence its exclusion provides a more informed measure of the operational performance of the Group.

5 The share of EBITDA of the associate excludes MET and special items of the associate.

## *(iii) Balance sheet information*

| $ million | Kazakhmys Mining | MKM [1] | Kazakhmys Power [1] | Corporate Services | Total | Continuing operations | Discontinued operations [1] |
|---|---|---|---|---|---|---|---|
| | | | | | | **At 31 December 2013** | |
| **Assets** | | | | | | | |
| Property, plant and equipment, mining assets and intangible assets [2] | **3,259** | **–** | **102** | **3** | **3,364** | **3,364** | **–** |
| Intragroup investments | **–** | **–** | **–** | **2,500** | **2,500** | **2,500** | **–** |
| Non-current investments and other assets [3] | **587** | **–** | **1,060** | **18** | **1,665** | **647** | **1,018** |
| Operating assets [4] | **1,092** | **–** | **49** | **257** | **1,398** | **1,398** | **–** |
| Current investments | **50** | **–** | **–** | **575** | **625** | **625** | **–** |
| Cash and cash equivalents | **154** | **–** | **7** | **1,554** | **1,715** | **1,715** | **–** |
| **Segment assets** | **5,142** | **–** | **1,218** | **4,907** | **11,267** | **10,249** | **1,018** |
| Deferred tax asset | | | | | **21** | **21** | **–** |
| Income taxes receivable | | | | | **59** | **59** | **–** |
| Assets classified as held for sale [1] | | | | | **–** | **1,018** | **(1,018)** |
| Elimination | | | | | **(2,728)** | **(2,728)** | **–** |
| **Total assets** | | | | | **8,619** | **8,619** | **–** |
| **Liabilities** | | | | | | | |
| Employee benefits and provisions | **622** | **–** | **11** | **–** | **633** | **633** | **–** |
| Operating liabilities [5] | **748** | **–** | **32** | **79** | **859** | **859** | **–** |
| **Segment liabilities** | **1,370** | **–** | **43** | **79** | **1,492** | **1,492** | **–** |
| Borrowings | | | | | **3,111** | **3,111** | **–** |
| Deferred tax liability | | | | | **14** | **14** | **–** |
| Income taxes payable | | | | | **9** | **9** | **–** |
| Elimination | | | | | **(228)** | **(228)** | **–** |
| **Total liabilities** | | | | | **4,398** | **4,398** | **–** |

| $ million | Kazakhmys Mining | MKM [1] | Kazakhmys Power [1] | Corporate Services | Total | Continuing operations | Discontinued operations [1] |
|---|---|---|---|---|---|---|---|
| | | | | | | At 31 December 2012 | |
| **Assets** | | | | | | | |
| Property, plant and equipment, mining assets and intangible assets [2] | 2,968 | 23 | 143 | 15 | 3,149 | 3,126 | 23 |
| Intragroup investments | – | – | – | 4,290 | 4,290 | 4,290 | – |
| Non-current investments and other assets [3] | 518 | – | 941 | 2,027 | 3,486 | 3,486 | – |
| Operating assets [4] | 1,216 | 224 | 68 | 164 | 1,672 | 1,448 | 224 |
| Current investments | 65 | – | – | 450 | 515 | 515 | – |
| Cash and cash equivalents | 147 | 4 | 20 | 1,079 | 1,250 | 1,246 | 4 |
| **Segment assets** | 4,914 | 251 | 1,172 | 8,025 | 14,362 | 14,111 | 251 |
| Deferred tax asset | | | | | 87 | 87 | – |
| Income taxes receivable | | | | | 30 | 30 | – |
| Assets classified as held for sale [1] | | | | | – | 251 | (251) |
| Elimination | | | | | (4,486) | (4,486) | – |
| **Total assets** | | | | | 9,993 | 9,993 | – |
| **Liabilities** | | | | | | | |
| Employee benefits and provisions | 469 | 6 | 9 | – | 484 | 478 | 6 |
| Operating liabilities [5] | 605 | 25 | 112 | 101 | 843 | 818 | 25 |
| **Segment liabilities** | 1,074 | 31 | 121 | 101 | 1,327 | 1,296 | 31 |
| Borrowings | | | | | 2,593 | 2,468 | 125 |
| Deferred tax liability | | | | | 1 | 1 | – |
| Income taxes payable | | | | | 3 | 1 | 2 |
| Liabilities directly associated with assets classified as held for sale [1] | | | | | – | 158 | (158) |
| Elimination | | | | | (196) | (196) | – |
| **Total liabilities** | | | | | 3,728 | 3,728 | – |

1. At 5 December 2013, the Group's investment in Ekibastuz GRES-1 and investment in Kaz Hydro within the Power segment, were classified as assets held for sale and included within discontinued operations. MKM was sold on 28 May 2013 (see note 6(a)). At 31 December 2012, MKM was classified as an asset held for sale and included within discontinued operations.
2. Property, plant and equipment, mining assets and intangible assets are located in the principal country of operations of each operating segment, i.e. (i) Kazakhstan – Kazakhmys Mining and Kazakhmys Power; (ii) Germany – MKM; Kazakhmys Mining also includes $146 million (2012: $57 million) in Kyrgyzstan.
3. Non-current investments and other assets include other non-current investments, non-current VAT receivable and non-current advances paid in both years with the Group's investment in Ekibastuz GRES-1 and Kaz Hydro, within the Kazakhmys Power segment and the Group's investment in ENRC within Corporate Services also being included at 31 December 2012.
4. Operating assets comprise inventories, prepayments and other current assets and trade and other receivables, including intragroup receivables.

[5] Operating liabilities comprise trade and other payables, including intragroup payables.

## *(iv) Net liquid funds/(debt)*

| $ million | Kazakhmys Mining | MKM [1] | Kazakhmys Power [2] | Corporate Services | Total | Continuing operations | Discontinued operations [1] |
|---|---|---|---|---|---|---|---|
| | **At 31 December 2013** | | | | | | |
| Cash and cash equivalents | **154** | **–** | **7** | **1,554** | **1,715** | **1,715** | **–** |
| Current investments | **50** | **–** | **–** | **575** | **625** | **625** | **–** |
| Borrowings [3] | **(1,312)** | **–** | **(72)** | **(3,110)** | **(4,494)** | **(4,494)** | **–** |
| Inter-segment borrowings [4] | **1,311** | **–** | **72** | **–** | **1,383** | **1,383** | **–** |
| **Net liquid funds/(debt)** | **203** | **–** | **7** | **(981)** | **(771)** | **(771)** | **–** |

| $ million | Kazakhmys Mining | MKM [1] | Kazakhmys Power [2] | Corporate Services | Total | Continuing operations | Discontinued operations [1] |
|---|---|---|---|---|---|---|---|
| | At 31 December 2012 | | | | | | |
| Cash and cash equivalents | 147 | 4 | 20 | 1,079 | 1,250 | 1,246 | 4 |
| Current investments | 65 | – | – | 450 | 515 | 515 | – |
| Borrowings [3] | (854) | (125) | (73) | (2,468) | (3,520) | (3,395) | (125) |
| Inter-segment borrowings [4] | 854 | – | 73 | – | 927 | 927 | – |
| **Net liquid funds/(debt)** | 212 | (121) | 20 | (939) | (828) | (707) | (121) |

[1] MKM was sold on 28 May 2013 (see note 6(a)). At 31 December 2012, MKM was classified as an asset held for sale and included within discontinued operations.
[2] Kazakhmys Power represents the Group's captive power stations.
[3] Borrowings of Corporate Services are presented net of capitalised arrangement fees of $40 million (2012: $32 million).
[4] Borrowings of Corporate Services include amounts lent to the Kazakhmys Mining and Kazakhmys Power segments.

## *(v) Capital expenditure*

| $ million | Kazakhmys Mining [1] | MKM [2] | Kazakhmys Power [3] | Corporate Services | Total | Continuing operations | Discontinued operations [2] |
|---|---|---|---|---|---|---|---|
| | **Year ended 31 December 2013** | | | | | | |
| Property, plant and equipment | **1,166** | **9** | **67** | **–** | **1,242** | **1,233** | **9** |
| Mining assets | **166** | **–** | **–** | **–** | **166** | **166** | **–** |
| Intangible assets | **17** | **–** | **–** | **–** | **17** | **17** | **–** |
| **Capital expenditure** | **1,349** | **9** | **67** | **–** | **1,425** | **1,416** | **9** |

| $ million | Kazakhmys Mining [1] | MKM [2] | Kazakhmys Power [3] | Corporate Services | Total | Continuing operations | Discontinued operations [2] |
|---|---|---|---|---|---|---|---|
| | Year ended 31 December 2012 | | | | | | |
| Property, plant and equipment | 1,011 | 11 | 47 | 2 | 1,071 | 1,060 | 11 |
| Mining assets | 217 | – | – | – | 217 | 217 | – |
| Intangible assets | 18 | – | – | – | 18 | 18 | – |
| **Capital expenditure** | 1,246 | 11 | 47 | 2 | 1,306 | 1,295 | 11 |

[1] Capital expenditure within the Kazakhmys Mining segment includes capitalised depreciation of $10 million (2012: $7 million) and $4 million (2012: $5 million) and capitalised borrowing costs of $111 million (2012: $36 million) and $15 million (2012: $3 million) related to property, plant and equipment and mining assets respectively. During the year, the site restoration and clean up provisions within Kazakhmys Mining were reassessed and as a result, reduced by $1 million (2012: $9 million) and $1 million (2012: $5 million) with a corresponding adjustment to property, plant and equipment and intangible assets, respectively. These amounts are non-cash items and are recorded within site restoration and clean up provisions and provisions for payments for licences. Capital expenditure also includes non-current advances paid for items of property, plant and equipment.
[2] For the period up to MKM's disposal on 28 May 2013 and for the year ended 31 December 2012, MKM is included within discontinued operations.
[3] Kazakhmys Power represents the Group's captive power stations. During the year, the site restoration and clean up provisions within Kazakhmys Power were reassessed and as a result, an additional $2 million (2012: $nil) has been recognised with a corresponding adjustment to property, plant and equipment.

### (b) Segmental information in respect of revenues

Revenues by product are as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| **Kazakhmys Mining** | | |
| Copper cathodes | **1,973** | 2,088 |
| Copper rods | **85** | 187 |
| Copper in concentrate | **210** | – |
| Total copper products | **2,268** | 2,275 |
| Silver (including silver in concentrate) | **311** | 414 |
| Gold bullion | **146** | 300 |
| Gold doré | **6** | 22 |
| Zinc in concentrate | **143** | 154 |
| Other by-products | **62** | 61 |
| Other revenue | **67** | 59 |
| | **3,003** | 3,285 |
| **MKM** | | |
| Wire | **186** | 490 |
| Sheets and strips | **263** | 635 |
| Tubes and bars | **128** | 309 |
| Metal trade | **18** | 32 |
| | **595** | 1,466 |
| **Kazakhmys Power** [1] | | |
| Electricity generation | **328** | 348 |
| Heating and other | **16** | 10 |
| | **344** | 358 |
| **Total revenues** | **3,942** | 5,109 |
| **Continuing operations** | **3,099** | 3,353 |

[1] Kazakhmys Power revenues comprise the external revenues of the Group's captive power stations and 50% of the revenues of Ekibastuz GRES-1.

Revenues by destination to third parties are as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| **Continuing operations** | | |
| Europe | **522** | 665 |
| China | **1,718** | 1,769 |
| Kazakhstan | **599** | 769 |
| Other | **260** | 150 |
| | **3,099** | 3,353 |
| **Discontinued operations – subsidiary** | | |
| Europe | **446** | 1,153 |
| China | **10** | 24 |
| Other | **139** | 289 |
| | **595** | 1,466 |
| **Discontinued operations – share of joint venture's revenues** | | |
| Kazakhstan | **214** | 279 |
| Other | **34** | 11 |
| | **248** | 290 |
| **Total revenues** | **3,942** | 5,109 |

*Year ended 31 December 2013*

Four customers within the Kazakhmys Mining segment, three of which are collectively under common control, represent 30% of total Group revenue from continuing operations for the year. The total revenue from these customers is $933 million. The revenue from the three customers under common control of $656 million represents 21% of the total Group revenue from continuing operations. Revenues from the fourth major customer of $277 million represent 9% of total Group revenue from continuing operations.

*Year ended 31 December 2012*

Four customers within the Kazakhmys Mining segment, three of which are collectively under common control, represented 37% of total Group revenue from continuing operations for the year. The total revenue from these customers was $1,245 million. The revenue from the three customers under common control of $999 million represented 30% of the total Group revenue from continuing operations. Revenues from the fourth major customer of $246 million represented 7% of total Group revenue from continuing operations.

## 4. Special items

Special items are those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business.

| $ million | 2013 | 2012 |
|---|---|---|
| **Continuing operations** | | |
| Special items within (loss)/profit before finance items and taxation: | | |
| Additional disability benefits obligation related to previously insured employees | **84** | – |
| Impairment charges – note 5 | **670** | 192 |
| Impairment charges against intangible assets | **7** | – |
| Impairment charges against property, plant and equipment | **483** | 110 |
| Impairment charges against mining assets | **144** | 82 |
| Provisions raised against inventories | **4** | – |
| Provisions raised against other assets | **32** | – |
| Loss on disposal of assets | **14** | 8 |
| Loss on disposal of property, plant and equipment | **14** | – |
| Loss on disposal of subsidiary | **–** | 8 |
| | **768** | 200 |
| Special items within (loss)/profit for the year: | | |
| Taxation related special items | **58** | (73) |
| Recognition of a deferred tax asset on additional disability benefits obligation related to previously insured employees | **(17)** | – |
| Impairment of deferred tax assets recognised in the Zhezkazgan Region | **98** | – |
| Refund of past EPT payments | **–** | (60) |
| Recognition of a deferred tax asset resulting from impairment charges | **(21)** | (13) |
| Deferred tax assets on other special items | **(2)** | – |
| | **826** | 127 |
| **Discontinued operations** | | |
| Special items within (loss)/profit before finance items and taxation: | | |
| Impairment charges – note 5 | **22** | 17 |
| Impairment charge against property, plant and equipment – MKM | **22** | 3 |
| Provisions against inventories – MKM | **–** | 14 |
| Loss on disposal of subsidiaries and investment in associate – note 6 | **529** | 13 |
| | **551** | 30 |
| Special items within (loss)/profit before taxation: | | |
| Impairment charge recognised on remeasurement of the ENRC investment | **823** | 2,223 |
| Associate [1] | **30** | 385 |
| Impairment charge recognised by associate | **42** | 316 |
| Onerous contract (utilised)/provided | **(13)** | 85 |
| Acquisition related transaction costs | **1** | 7 |
| Net gain arising from business combinations | **–** | (23) |
| | **1,404** | 2,638 |
| Special items within (loss)/profit for the year: | | |
| Taxation effect of special items | | |
| Release of deferred tax liabilities/(assets) resulting from the remeasurement of MKM | **4** | (2) |
| Recognition of deferred tax assets on impairment charges recognised by ENRC | **(14)** | – |
| | **1,394** | 2,636 |

[1] At 24 June 2013, the Group's investment in its associate, ENRC was reclassified to assets held for sale and discontinued operations (see note 13).

## 5. Impairment losses

| $ million | 2013 | 2012 |
|---|---|---|
| Impairment charges against intangible assets | **7** | – |
| Impairment charges against property, plant and equipment – note 5(b) and note 5(g) [1] | **483** | 110 |
| Impairment charges against mining assets – note 5(c) and note 5(g) [1] | **144** | 82 |
| Provisions raised/(released) against inventories – note 5(d) | **11** | (1) |
| Provisions raised against other assets note 5(e) | **32** | 7 |
| Provisions raised against trade and other receivables – note 5(f) | **12** | 4 |
| **Continuing operations** | **689** | 202 |
| Discontinued operations – note 5(h) [1] | **846** | 2,241 |
| | **1,535** | 2,443 |

[1] These impairments are considered to be special items for the purposes of determining the Group's key financial indicator of EBITDA (excluding special items) and Underlying Profit (see note 4).

*Year ended 31 December 2013*

### (a) Kazakhmys Mining – Zhezkazgan Region cash generating unit ('CGU') impairment review

In light of the decline in the price of commodities produced by the Group and inflationary pressures on operating costs, the Group commenced an optimisation programme and asset review which has resulted in operating cost and capital expenditure savings.

The asset review has considered the results of the optimisation programme to date, and the potential for future savings, when assessing the future economic outlook for assets. The prospects for the Zhezkazgan Region, a CGU within Kazakhmys Mining, are considered challenging. The recoverable amount of the Zhezkazgan Region cash generating unit is believed by management to be significantly lower than its carrying value such that an impairment charge of $575 million has been recognised, including $98 million of deferred taxes written off. The impairment charge has reduced the carrying value of the Zhezkazgan CGU to nil.

The recoverable amount of the Zhezkazgan Region has been determined based on the 'fair value less costs to sell' calculations using the cash flows expected to be generated from existing operations and certain development projects, in particular Zhomart II. Cash flows are projected for periods up to the date that mining, refining and power generation is expected to cease based on management's current expectations. For current operations, the completion dates are based on recent assessments of the reserves and resources available and annual ore extraction rates.

The key assumptions used in the recoverable amount calculations are:

- Recoverable amount of reserves and resources - Economically recoverable reserves and resources are based on management's expectations and the technical studies and exploration and evaluation work undertaken by in-house and third party specialists.
- Commodity prices - Long-term commodity prices assumed fall within the range of external market analyst consensus.
- Operating costs - Variable operating costs have been included in the impairment test as a function of the related production volumes. Fixed costs at the mines, concentrators and smelters are largely constant but reflect material changes in activity levels.
- Discount rate - A discount rate of 16% was used in the recoverable amount calculations, which represents the pre-tax rate that reflects the Group's current market assessments of the time value of money and the risks specific to the cash generating unit.
- Timing of capital expenditure - Management have estimated the timing of capital expenditure on the development projects based on the Group's current and future financing plans and the results of technical studies completed to date.
- Inflation and exchange rates - These are based on a combination of externally sourced forecasts and rates determined from information available in the market after considering long-term market expectations.

The calculation of the fair value less costs to sell of the Group's CGUs for the impairment review at 31 December 2013 provided a range of outcomes as the calculation is particularly sensitive to changes in commodity prices, operating cost inflation, capital expenditure and the discount rate used. Any changes to the assumptions adopted in the calculation of the fair value less costs to sell, individually or in aggregate, would result in a different valuation being determined.

### (b) Kazakhmys Mining – impairment charges against property plant and equipment

The impairment charges recognised against property, plant and equipment include $325 million related to the impairment of the Zhezkazgan Region CGU, the impairment of certain production assets during the year, principally the Zhezkazgan smelter, Satpayev concentrator and associated assets of $115 million and a number of mid-sized projects that were been suspended during the year as a result of the Group's asset review of $33 million. In addition following the suspension of the Berezovsky concentrator in the East Region in the second half of the year, an impairment charge of $8 million has been recognised.

### (c) Kazakhmys Mining – impairment charges against mining assets

Following the Group's asset review discussed above, the Zhezkazgan Region CGU was impaired resulting in charges of $139 million being recognised against mining assets. In addition, certain mid-sized projects within Kazakhmys Mining have been suspended leading to impairments of $5 million being recognised against mining assets.

### (d) Kazakhmys Mining – inventories

Included within the provisions against inventories is an impairment charge of $4 million relating to specialised consumable inventories at the suspended Zhezkazgan smelter and $7 million (2012: release of $1 million) relating to general slow moving and obsolete inventory. Only impairment charges or reversals recognised against ore, specific consumables and finished goods inventories are treated as special items (see note 4).

### (e) Kazakhmys Mining – other assets

The impairment of other assets mainly relates to the allocation of the impairment charge recognised in respect of the Zhezkazgan Region CGU, as discussed in note 5(a), in accordance with IAS 36 on a proportionate basis. This impairment charge is in addition to $20 million of other asset impairments recognised at 30 June 2013.

### (f) Kazakhmys Mining – trade and other receivables

Provisions against trade and other receivables include an amount of $12 million (2012: $4 million) within Kazakhmys Mining in respect of trust activities. Under the terms of its subsoil licences, Kazakhmys LLC is required to provide certain social services to the communities in which its mining activities operate. These trust activities are provided by municipal authority companies under trust management agreements. For most receivable balances due from municipal authorities full provision is recognised in light of their past payment histories.

*Year ended 31 December 2012*

### (g) Kazakhmys Mining – impairment charges against mining assets and property plant and equipment

During 2012, the Bozymchak gold/copper development project, included in the Kazakhmys Mining Division, was subject to an impairment review due to difficulties experienced in operating in Kyrgyzstan. The impairment review assumed a revised date for commercial production, additional capital costs and re-assessed the risks associated with the project's execution. As a result, the Group recognised an impairment charge of $162 million against the mining assets and property, plant and equipment of the Bozymchak project. The impairment charge reduced the carrying value of the Bozymchak project to its recoverable amount of $106 million, determined as its value-in-use on a discounted cash flow basis. The charge of $162 million was recorded against tangible assets (mining assets – $71 million and property, plant and equipment – $91 million) with an associated deferred tax credit of $13 million. The cash flow forecasts were discounted at a pre-tax rate of 16%.

The impairment charge against property, plant and equipment also includes $11 million relating to transportation infrastructure owned by the Group following a change in the intended use of the assets and a reassessment of their future cash flows.

In addition, during 2012 mining assets of $11 million were impaired which relate to the Kazakhmys Mining segment. Of this total, $7 million relates to the write-down of the assets attributable to the Nikolayevsky mine which was suspended in August 2012 as it was no longer considered economically viable to operate this mine.

### (h) Discontinued operations

Within discontinued operations impairment charges were recognised to write down the carrying values of MKM and ENRC to their fair value less costs to sell. MKM was impaired by $22 million (2012: $17 million) and ENRC by $823 million (2012: $ 2,223 million written down to value-in-use) (see note 13). Of the total impairment charges recognised at MKM in the years ended 31 December 2013 (for the period until 28 May 2013 when it was disposed of) and 31 December 2012 of $23 million (2012: $17 million), $1 million in both years relates to the impairment of receivables which are not treated as special items.

## 6. Disposal of subsidiaries and investment in associate

*Year ended 31 December 2013*

### (a) MKM

On 28 May 2013, the Group completed the disposal of MKM for a total consideration of €42 million ($55 million) net of expected selling costs of €2 million ($2 million). At the date of disposal MKM had net assets of €41 million ($54 million). The total consideration of €42 million consists of €30 million ($39 million) which was received in May 2013 and €12 million ($16 million) which is deferred. The total consideration was concluded after the receipt of a dividend from MKM of €10 million ($13 million) in April 2013. The deferred component of the consideration is in the form of a secured vendor loan note that bears interest at 9% per annum over four years, expiring in 2017, with early repayment permitted. The loss on disposal of $1 million was mainly attributable to the recycling of the foreign currency translation reserve of $2 million.

MKM was classified as an asset held for sale and a discontinued operation for the years ended 31 December 2013 (until its disposal in May 2013) and 31 December 2012.

### (b) Investment in Associate – ENRC

On 24 June 2013 Eurasian Resources, acting on behalf of the ENRC Consortium comprising Mr Machkevitch, Mr Ibragimov, Mr Chodiev and the Government of Kazakhstan, announced a firm intention to make an offer for ENRC comprising $2.65 in cash plus approximately 0.23 Kazakhmys PLC shares per ENRC share. The share component of the offer was fixed at Kazakhmys' share price on 21 June 2013, resulting in an offer of approximately $1,206 million ($1,194 million net of expenses). On 8 November 2013, the transaction completed and the Group received total proceeds of $1,194 million, comprising $875 million in cash and 77,041,147 Kazakhmys PLC shares valued at $319 million. On completion the Group recognised a loss on disposal of its investment in ENRC of $528 million, principally representing the recycling of the Group's share of ENRC's transactions recognised directly in equity of $511 million.

The Kazakhmys PLC shares received by the Group were subsequently cancelled.

ENRC was classified as a discontinued operation for the years ended 31 December 2013 (until its disposal in November 2013) and 31 December 2012.

*Year ended 31 December 2012*

### (c) Subsidiary company

In early 2012, the Group disposed of a subsidiary company in Kazakhstan, included within Kazakhmys Mining, with net assets of $11 million, for proceeds of $3 million which resulted in the recognition of a loss of $8 million on disposal.

## 7. Discontinued operations and assets held for sale

### (a) ENRC

As stated in note 6(b), the Group disposed of ENRC on 8 November 2013. It was classified as a discontinued operation for the years ended 31 December 2013 (until the date of its disposal) and 31 December 2012.

### (b) MKM

As stated in note 6(a), the Group disposed of MKM on 28 May 2013. It was classified as a discontinued operation for the years ended 31 December 2013 (until the date of its disposal) and 31 December 2012.

### (c) Ekibastuz GRES-1

On 5 December 2013, the Kazakhmys Board of Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-1 and the Group's investment in Kaz Hydro for $1,249 million, after transaction costs of $2 million and an additional $49 million being the cost of acquiring the remaining shares held in Kaz Hydro. The offer was approved by Kazakhmys shareholders on 7 January 2014 with completion dependent on certain conditions precedent. After considering the status of the sales process, the Directors believe that it is highly probable a sale will be complete within 12 months. As a result, the Group's investments in Ekibastuz GRES-1 and Kaz Hydro have been classified as assets held for sale at 31 December 2013, with Ekibastuz GRES-1 being classified as a discontinued operation in the consolidated income statement for the period ended 5 December 2013 and for the year ended 31 December 2012. The investment has been stated at its last equity accounted carrying value, which is lower than the expected net sales proceeds (see note 12).

### (d) Financial performance of discontinued operations

The summary of results from discontinued operations as presented in the consolidated income statement is shown below:

| $ million | 2013 | 2012 |
|---|---|---|
| **Results of discontinued operations:** | | |
| MKM | **(27)** | 33 |
| Ekibastuz GRES-1 | **89** | 126 |
| ENRC | **(1,286)** | (2,481) |
| Kazakhmys Petroleum | **–** | (13) |
| **Loss for the year from discontinued operations** | **(1,224)** | (2,335) |

The balance sheet as at 31 December 2012 and the results from MKM are set out in note 3(a).

The Group's share of ENRC's results is shown below:

| $ million | 2013 | 2012 |
|---|---|---|
| **Share of associate's revenue and profit** | | |
| Revenue | **834** | 1,643 |
| Operating profit | **126** | (146) |
| Loss arising from acquisition of joint venture | **(5)** | 23 |
| Profit before finance items, taxation and share of losses from joint ventures and associates | **121** | (123) |
| Net finance costs and share of loss of joint ventures and associates | **(33)** | (69) |
| Income tax expense and non-controlling interests | **(23)** | (66) |
| **Share of profits/(losses)** | **65** | (258) |
| Impairment loss recognised on the remeasurement to fair value less costs to sell/value-in-use | **(823)** | (2,223) |
| Loss on disposal | **(528)** | – |
| **Results for the year** | **(1,286)** | (2,481) |

The Group's share of Ekibastuz GRES-1's results is shown below:

| $ million | 2013 | 2012 |
|---|---|---|
| **Share of joint venture's revenue and profit** | | |
| Revenue | **248** | 290 |
| Operating profit | **115** | 155 |
| Net finance (expense)/income | **(3)** | 3 |
| Income tax expense | **(23)** | (32) |
| **Profit for the year** | **89** | 126 |

Net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

| $ million | 2013 | 2012 |
|---|---|---|
| Operating activities | **(27)** | 192 |
| Investing activities | **(21)** | (51) |
| Financing activities | **43** | (82) |
| **Net cash (outflow)/inflow** | **(5)** | 59 |

## 8. Finance income and finance costs

| $ million | 2013 | 2012 |
|---|---|---|
| **Finance income** | | |
| Interest income | **12** | 17 |
| Foreign exchange gains | **33** | 47 |
| **Finance income attributable to continuing operations** | **45** | 64 |
| Interest income | **–** | – |
| Foreign exchange gains | **5** | 10 |
| **Finance income attributable to discontinued operations** | **5** | 10 |
| | **50** | 74 |
| **Finance costs** | | |
| Interest expense | **(51)** | (79) |
| Total interest expense | **(177)** | (118) |
| Less: amounts capitalised to the cost of qualifying assets [1] | **126** | 39 |
| Interest on employee obligations | **(26)** | (15) |
| Unwinding of discount on provisions | **(8)** | (8) |
| Finance costs before foreign exchange losses | **(85)** | (102) |
| Foreign exchange losses | **(39)** | (53) |
| **Finance costs attributable to continuing operations** | **(124)** | (155) |
| Interest expense | **(2)** | (5) |
| Foreign exchange losses | **(4)** | (10) |
| **Finance costs attributable to discontinued operations** | **(6)** | (15) |
| | **(130)** | (170) |

[1] In 2013, the Group capitalised to the cost of qualifying assets $126 million (2012: $39 million) of borrowing costs incurred on the outstanding debt during the period on the CDB/Samruk-Kazyna and CDB financing facilities at an average rate of interest of 5.80% (2012: 5.54%).

## 9. Income taxes

Major components of income tax expense for the years presented are:

| $ million | 2013 | 2012 |
|---|---|---|
| **Current income tax** | | |
| Corporate income tax – current period (UK) | **–** | 7 |
| Corporate income tax – current period (overseas) | **62** | 148 |
| Corporate income tax – prior periods | **(18)** | 23 |
| Excess profits tax – prior periods | **–** | (60) |
| **Deferred income tax** | | |
| Corporate income tax – current period temporary differences | **76** | (32) |
| Corporate income tax – prior period temporary differences | **7** | – |
| **Income tax expense attributable to continuing operations** | **127** | 86 |
| Current income tax attributable to discontinued operations | **1** | (7) |
| Deferred income tax attributable to discontinued operations | **–** | – |
| **Income tax expense/(credit) attributable to discontinued operations** | **1** | (7) |
| **Total income tax expense** | **128** | 79 |

A reconciliation of the income tax expense applicable to the accounting (loss)/profit before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate is as follows:

| $ million | **2013** | 2012 |
|---|---|---|
| (Loss)/profit before tax from continuing operations | **(681)** | 151 |
| At UK statutory income tax rate of 23.25% (2012: 24.5%) [1] | **(158)** | 37 |
| (Over)/underprovided in prior periods – current income tax | **(18)** | 23 |
| Underprovided in prior periods – deferred income tax | **7** | – |
| Unrecognised tax losses | **27** | 16 |
| Impairment of deferred tax assets in respect of the Zhezkazgan Region | **98** | – |
| Effect of domestic tax rates applicable to individual Group entities | **21** | 11 |
| Non-deductible items: | | |
| Transfer pricing | **5** | 6 |
| Impairment charge recognised against the Zhezkazgan Region | **95** | – |
| Other non-deductible expenses | **50** | 53 |
| Refund of past excess profits tax payments | **–** | (60) |
| **Income tax expense attributable to continuing operations** | **127** | 86 |
| Income tax attributable to discontinued operations | **1** | (7) |
| **Total income tax expense** | **128** | 79 |

[1] For 2013, the UK statutory rate for January to March 2013 was 24.0% and for April to December 2013 was 23.0%, giving a weighted average full year rate of 23.25%. For 2012, the UK statutory income tax rate for January to March 2012 was 26.0% and for April to December 2012 was 24.0%, giving a weighted average full year rate of 24.5%.

Corporate income tax ('CIT') is calculated at 23.25% (2012: 24.5%) of the assessable profit for the year for the Company and its UK subsidiaries, 20.0% for the operating subsidiaries in Kazakhstan (2012: 20.0%) and 10.0% for the Group's Kyrgyzstan based subsidiary (2012: 10%). MKM, which was included as part of discontinued operations, had a tax rate of 28.5% (2012: 28.5%) which relates to German corporate income tax and trade tax.

*Effective tax rate*

Tax charges are affected by the mix of profits and tax jurisdictions in which the Group operates. The lower CIT rate in Kazakhstan will have the effect of lowering the Group's overall future effective tax rate below the current UK statutory corporate tax rate. The impact of transfer pricing provisions and non-deductible items, including impairment losses, will increase the Group's overall future effective tax rate.

The following factors impact the Group's effective tax rate for the year ended 31 December 2013:

*Unrecognised tax losses*

The Group has incurred tax losses during the year, primarily related to certain subsoil use contracts, which are not expected to generate sufficient taxable profits for these losses to be utilised in the foreseeable future. As a result, deferred tax assets of $27 million (2012: $16 million) in respect of these losses have not been recognised.

*Impairment of deferred tax assets in respect of the Zhezkazgan Region*

The $98 million deferred tax asset in the Zhezkazgan Region primarily related to the employee benefits obligation. Following the impairment review performed on the Zhezkazgan Region, it is not expected that sufficient taxable income will be generated to utilise these assets. As a result, the deferred tax assets have been fully impaired.

*Transfer pricing*

Notwithstanding recent changes to Kazakhstan's transfer pricing legislation to closer align it with international trading practices, inconsistencies still arise between the transfer pricing requirements in Kazakhstan and the UK. Consequently, certain of the Group's profits are taxed in both jurisdictions due to intercompany sales and purchase contracts that have been put in place within the Group which places upward pressure of $2 million (2012: $3 million) on the Group's effective tax rate. In addition, following confirmation from the tax authorities on the appropriateness of the Group's transfer pricing calculations on certain by-products, the previous provision of $18 million has been reversed. This amount is shown as an overprovision in prior periods.

In addition, certain sales contracts entered into by Kazakhmys LLC with European and Russian customers included trading terms that are not fully acceptable under Kazakhstan transfer pricing legislation. Consequently, a provision of $3 million has been recognised based on this anticipated exposure at 31 December 2013 (2012: $3 million).

*Other non-deductible expenses*

Included within non-deductible expenses are impairment charges and provisions recognised against various assets and other ongoing business expenses within Kazakhmys Mining of $50 million (2012: $53 million). In addition, the impairment charges recognised against the Zhezkazgan Region's assets are not deductible and have a $95 million impact on the tax charge. The reversal of the provision for environmental pollution charges and the related fines and penalties amounting to $38 million in aggregate was non-taxable and offset non-deductible expenses for the year ended 31 December 2012.

The following additional factor impacted the Group's effective tax rate for the year ended 31 December 2012 only:

*Excess profits taxation*

In 2012, following the Supreme Court's ruling, Kazakhmys LLC lodged a claim with the Ministry of Finance to seek reimbursement of past EPT payments amounting to $108 million for the periods up to and including 2008. In the second half of 2012, the Ministry of Finance refunded $60 million which was set-off against the income tax and mineral extraction tax liabilities for the year ended 31 December 2012. The remaining $48 million was challenged by the tax authorities who believe that this amount relates to periods beyond the Kazakhstan statute of limitations. The reimbursement of $60 million in 2012 reduced the income tax and mineral tax payments for the year and lowered the Group's effective income tax rate.

## 10. Earnings per share

### (a) Basic and diluted EPS

Basic EPS is calculated by dividing the (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. Purchases of the Company's shares by the Employee Benefit Trust and by the Company under the share buy-back programme are held in treasury and treated as own shares.

The following reflects the income and share data used in the EPS computations:

| $ million | 2013 | 2012 |
|---|---|---|
| Net (loss)/profit attributable to equity shareholders of the Company from continuing operations | **(806)** | 64 |
| Net loss attributable to equity shareholders of the Company from discontinued operations | **(1,224)** | (2,335) |
| | **(2,030)** | (2,271) |

| Number | 2013 | 2012 |
|---|---|---|
| Weighted average number of ordinary shares of 20 pence each for EPS calculation | **512,554,049** | 524,496,185 |
| **EPS – basic and diluted ($)** | | |
| From continuing operations | **(1.57)** | 0.12 |
| From discontinued operations | **(2.39)** | (4.45) |
| | **(3.96)** | (4.33) |

### (b) EPS based on Underlying Profit

The Group's Underlying Profit is the net profit for the year excluding special items and their resultant tax and non-controlling interest effects, as shown in the table below. EPS based on Underlying Profit is calculated by dividing Underlying Profit by the weighted average number of ordinary shares of 20 pence each outstanding during the year. The Directors believe EPS based on Underlying Profit provides a more consistent measure for comparing the underlying trading performance of the Group.

The following table shows the reconciliation from the reported profit to Underlying Profit and the share data used to determine the EPS based on Underlying Profit:

| $ million | 2013 | 2012 |
|---|---|---|
| Net (loss)/profit attributable to equity shareholders of the Company from continuing operations | **(806)** | 64 |
| Special items within (loss)/profit before finance items and taxation – note 4: | **768** | 200 |
| Special items within (loss)/profit for the year – note 4: | **58** | (73) |
| **Underlying Profit from continuing operations** | **20** | 191 |
| Net loss attributable to equity shareholders of the Company from discontinued operations | **(1,224)** | (2,335) |
| Special items within (loss)/profit before finance items and taxation – note 4: | | |
| Subsidiary businesses | **551** | 30 |
| Special items within profit before taxation – note 4: | | |
| Impairment charge recognised against the investment in ENRC | **823** | 2,223 |
| Associate | **30** | 385 |
| Special items within loss for the year – note 4: | | |
| Subsidiary businesses | **4** | (2) |
| Associate | **(14)** | – |
| **Underlying Profit from discontinued operations** | **170** | 301 |
| **Total Underlying Profit** | **190** | 492 |

| Number | 2013 | 2012 |
|---|---|---|
| Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit calculation | **512,554,049** | 524,496,185 |
| **EPS based on Underlying Profit – basic and diluted ($)** | | |
| From continuing operations | **0.04** | 0.36 |
| From discontinued operations | **0.33** | 0.58 |
| | **0.37** | 0.94 |

## 11. Dividends paid

The dividends paid during the year ended 31 December 2013 and 2012 are as follows:

| | Per share US cents | Amount $ million |
|---|---|---|
| Year ended 31 December 2013 | | |
| Final dividend in respect of year ended 31 December 2012 | **8.0** | **42** |
| Year ended 31 December 2012 | | |
| Final dividend in respect of year ended 31 December 2011 | 20.0 | 105 |
| Interim dividend in respect of year ended 31 December 2012 | 3.0 | 16 |
| | 23.0 | 121 |

## 12. Investment in joint venture

| $ million | 2013 | 2012 |
|---|---|---|
| At 1 January | **927** | 838 |
| Share of profits from joint venture [1,2] | **89** | 126 |
| Net share of losses of joint venture recognised in other comprehensive income [2] | **(12)** | (9) |
| Dividends received | **–** | (28) |
| Reclassified to assets held for sale – note 7(c) | **(1,004)** | – |
| **At 31 December** | **–** | 927 |

1 Share of profits from joint venture is net of tax.
2 Based on the unaudited financial statements for the period ended 30 November 2013 and the year ended 31 December 2012 of Ekibastuz GRES-1.

The investment in joint venture relates to the Group's 50% shareholding in Ekibastuz GRES-1. On 5 December 2013, the Kazakhmys Board of Directors accepted an offer from Samruk-Energo, an investment vehicle of the Government of Kazakhstan, for the sale of the Group's 50% joint venture in Ekibastuz GRES-1 and the Group's investment in Kaz Hydro for $1,249 million. The sale was approved by the Group's shareholders on 7 January 2014 with completion, which is expected in the first half of 2014, dependent upon certain conditions precedent. After considering the status of the sales process, the Directors believe that it is highly probable a sale will be completed within 12 months. As a result, the Group's investments in Ekibastuz GRES-1 and Kaz Hydro have been classified as assets held for sale at 31 December 2013, with Ekibastuz GRES-1 being classified as a discontinued operation in the consolidated income statement for the period ended 5 December 2013 and for the year ended 31 December 2012.

## 13. Investment in associate

The Group held 334,824,860 shares in ENRC representing 26.0% of the issued share capital until 8 November 2013, the date on which the investment was sold.

| $ million | 2013 | 2012 |
|---|---|---|
| **Investment in associate** | | |
| At 1 January | **2,027** | 4,600 |
| Share of profits/(losses) from associate [1,2] | **65** | (258) |
| Share of losses of associate recognised in other comprehensive income [2] | **(75)** | (33) |
| Impairment charge against investment in associate | **(823)** | (2,223) |
| Dividends received | **–** | (59) |
| Disposal – note 6(b) | **(1,194)** | – |
| **At 31 December** | **–** | 2,027 |

[1] Share of profits/(losses) from associate is net of tax.
[2] Based on ENRC's financial statements for the year ended 31 December 2012 and unaudited interim results for the period ended 30 June 2013.

On 24 June 2013, the Kazakhmys Board of Directors gave an irrevocable undertaking to accept the proposed offer from Eurasian Resources for the Group's entire shareholding in ENRC. At that date it was considered 'highly probable' that Kazakhmys' shareholders would approve the transaction such that the Group's investment in ENRC met the criteria to be classified as an asset held for sale. Kazakhmys shareholder approval was received on 2 August 2013. The investment was stated at the expected net sales proceeds of $1,194 million, resulting in an impairment of $823 million being recognised within discontinued operations in the consolidated income statement. The transaction completed on 8 November 2013 with the Group receiving $875 million (net of $12 million of estimated transaction costs) and 77,041,147 Kazakhmys PLC shares valued at $319 million (£207 million). The Kazakhmys PLC shares received as part of the consideration were subsequently cancelled. The Group recognised a loss on disposal of the ENRC investment within discontinued operations (see note 6(b)), of $528 million, principally representing the recycling of the Group's share of ENRC's transactions recognised directly in equity of $511 million.

At 31 December 2012, following an impairment charge of $2,223 million the carrying value of the Group's equity investment in ENRC was $2,027 million. The impairment charge was recognised on the basis of an impairment review that was performed in accordance with IAS 36 'Impairment of assets', where the value of the Group's investment was determined on a value-in-use basis.

## 14. Share capital and reserves

### (a) Allotted share capital

| | Number | £ million | $ million |
|---|---|---|---|
| **Allotted and called up share capital – Ordinary shares of 20 pence each** | | | |
| At 1 January 2012 | 535,417,961 | 107 | 200 |
| Issuance of Company's share capital pursuant to acquisition of non-controlling interest in subsidiary | 2,219 | – | – |
| At 31 December 2012 | 535,420,180 | 107 | 200 |
| Purchase of Company's issued share capital | **(77,041,147)** | **(15)** | **(29)** |
| At 31 December 2013 | **458,379,033** | **92** | **171** |

In November 2013, the Group completed the disposal of its investment in ENRC, receiving 77,041,147 Kazakhmys PLC shares as part of the total consideration. These shares were subsequently cancelled.

During 2012, the Company issued 2,219 ordinary shares of 20 pence each and paid $2 million in consideration for the transfer of 7,160,730 units in Kazakhmys LLC from non-controlling shareholders. Following this transaction, the Company's interest in Kazakhmys LLC increased from 99.88% at 1 January 2012 to 99.90% at 31 December 2012.

### (b) Own shares

*(i) Own shares purchased under the Group's share-based payment plans*

The provision of shares to the Group's share-based payment plans is facilitated by an Employee Benefit Trust. The cost of shares purchased by the Trust is charged against retained earnings as treasury shares. The Employee Benefit Trust has waived the right to receive dividends on these shares. During 2013, 115,579 shares (2012: 84,515) were transferred out of the Trust in settlement of share awards granted to employees that were exercised during the period.

At 31 December 2013, the Group, through the Employee Benefit Trust, owned 648,215 shares in the Company (2012: 763,794) with a market value of $2 million and a cost of $12 million (2012: $10 million and $14 million respectively). The shares held in treasury represented 0.14% (2012: 0.14%) of the issued share capital at 31 December 2013.

### *(ii) Own shares purchased under the Company's share buy-back programme*

In August 2011, the Group announced a share buy-back programme of up to $250 million, the completion of which was subject to market conditions. The buy-back programme commenced in September 2011 following receipt of regulatory and shareholder approval. In the period from 1 January 2012 to 10 May 2012, when the buy-back programme ceased, the Group purchased 6,142,120 shares at a cost of $88 million. In total, since the buy-back commenced, the Group purchased 11,701,830 shares at a cost of $166 million (equivalent to 2.2% of the issued share capital prior to the commencement of the buy-back programme). The bought back shares are held in treasury and have been accounted for as own shares. The cost of the shares has been charged against retained earnings and no dividends are declared on these shares.

## (c) Capital reserves

| $ million | Reserve fund | Net unrealised gains/(losses) reserve | Currency translation reserve | Capital redemption reserve | Hedging reserve | Total |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 42 | (43) | (843) | 6 | (2) | (840) |
| Exchange differences on retranslation of foreign operations [1] | – | – | (50) | – | – | (50) |
| Share of losses of joint venture recognised in other comprehensive income | – | – | (9) | – | – | (9) |
| Share of gains/(losses) of associate recognised in other comprehensive income | – | 43 | (76) | – | – | (33) |
| At 31 December 2012 | 42 | – | (978) | 6 | (2) | (932) |
| Exchange differences on retranslation of foreign operations [1] | **–** | **–** | **(60)** | **–** | **–** | **(60)** |
| Recycling of exchange differences on disposal of subsidiaries | **–** | **–** | **2** | **–** | **–** | **2** |
| Recycling of capital reserves on disposal of associate | **–** | **–** | **509** | **–** | **2** | **511** |
| Share of losses of joint venture recognised in other comprehensive income | **–** | **–** | **(12)** | **–** | **–** | **(12)** |
| Share of gains of associate recognised in other comprehensive income | **–** | **–** | **(75)** | **–** | **–** | **(75)** |
| Purchase of Company's issued share capital | **–** | **–** | **–** | **25** | **–** | **25** |
| **At 31 December 2013** | **42** | **–** | **(614)** | **31** | **–** | **(541)** |

1 Of the $60 million (2012: $50 million) of foreign exchange differences recognised in the currency translation reserve for the year, $1 million (2012: a credit of $2 million) relates to discontinued operations.

### *(i) Reserve fund*

In accordance with legislation of the Republic of Kazakhstan the reserve fund comprises prescribed transfers from retained earnings amounting to 15% of Kazakhmys LLC's charter capital.

### *(ii) Net unrealised gains/(losses) reserve*

The net unrealised gains/(losses) reserve was used to record the fair value movements of available for sale investments within the Group's associate, ENRC.

### *(iii) Currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not the US dollar into the Group's presentation currency.

### *(iv) Capital redemption reserve*

As a result of the share buy-back programme undertaken in 2008 and the repurchase of Kazakhmys shares received from the ENRC disposal in 2013, transfers were made from share capital to the capital redemption reserve based on the nominal value of the shares cancelled.

### *(v) Hedging reserve*

The hedging reserve is used to record the fair value movements of derivative financial instruments that have been designated as cash flow hedges within the Group's associate, ENRC.

## 15. Borrowings

| | Maturity | Average interest rate during the year | Currency of denomination | Current $ million | Non-current $ million | Total $ million |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Continuing operations | | | | | | |
| CDB/Samruk-Kazyna facility – US$ LIBOR + 4.80% | 2025 | 5.26% | US dollar | **503** | **2,065** | **2,568** |
| CDB - Aktogay facility – US$ LIBOR + 4.20% | 2026 | 6.55% | RMB | **–** | **57** | **57** |
| Pre-export finance facility – US$ LIBOR + 2.80% | 2017 | 2.98% | US dollar | **–** | **486** | **486** |
| | | | | **503** | **2,608** | **3,111** |
| 31 December 2012 | | | | | | |
| Continuing operations | | | | | | |
| CDB/Samruk-Kazyna facility – US$ LIBOR + 4.80% | 2025 | 5.54% | US dollar | 29 | 2,439 | 2,468 |
| Discontinued operations | | | | | | |
| Revolving trade finance facility – EURIBOR + 2.25% | 2015 | 2.60% | Euro | – | 125 | 125 |

### Pre-export finance facility

On 20 December 2012, Kazakhmys Finance PLC, a wholly owned subsidiary of the Company, signed a five year pre-export finance facility for $1.0 billion with a syndicate of banks to be used for general corporate purposes. The funds attract interest at US$ LIBOR plus 2.80%. The facility has a final maturity date of December 2017 and monthly loan repayments of principal will commence in January 2015. Kazakhmys PLC, Kazakhmys LLC and Kazakhmys Sales Limited act as guarantors of the loan.

On 27 December 2013, the facility was reduced to $500 million, being the amount drawn at the end of the availability period. Arrangement fees with an amortised cost of $14 million, gross cost before amortisation of $18 million, have been netted off against these borrowings in accordance with IAS 39. At 31 December 2012, the facility was undrawn.

### China Development Bank ('CDB') and JSC Sovereign Wealth Fund Samruk-Kazyna ('Samruk-Kazyna') financing line

On 30 December 2009, Kazakhmys announced that it had secured a $2.7 billion financing line with CDB and Samruk-Kazyna, allocated from a $3.0 billion financing line agreed between CDB and Samruk-Kazyna. Of the $2.7 billion secured for the Group, facility agreements were signed for $2.1 billion on 30 December 2009, and for a further $200 million on 12 January 2010, for the development of the Group's projects at Bozshakol and Bozymchak and other development projects, and two facility agreements for $200 million each, allocated to the Akbastau-Kosmurun and Zhomart projects, were signed on 11 June 2012. Samruk-Kazyna has separately signed an agreement for $300 million of the $3.0 billion to be used elsewhere and not for the benefit of the Group, which was subsequently repaid to CDB by Samruk-Kazyna in January 2013. As part of this financing package, the Company, along with a subsidiary of Samruk-Kazyna, provided a guarantee in favour of CDB in respect of Samruk-Kazyna's obligations under the $2.7 billion financing line.

The funds, which were fully drawn in January 2013, attract interest semi-annually at an annualised rate of US$ LIBOR plus 4.80%. The loans have a final maturity falling between January 2022 and August 2025 and the first repayment commenced in January 2013.

As at 31 December 2013, $2.6 billion (2012: $2.5 billion) was drawn under the facility agreements. Arrangement fees with an amortised cost as at 31 December 2013 of $25 million (2012: $32 million), (gross cost before amortisation of $43 million (2012: $40 million)), have been netted off against these borrowings in accordance with IAS 39. In January 2014, the Group repaid early $400 million under this facility related to the Akbastau-Kosmurun and Zhomart projects as development of these projects is not expected to commence in the near future.

### China Development Bank ('CDB') Aktogay finance facility

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 $1.3 billion and the second agreement for up to RMB1.0 billion ($165 million equivalent at the RMB/US$ exchange rate on 31 December 2013). The US dollar agreement attracts interest at US$ LIBOR plus 4.20% and the RMB agreement attracts interest at the applicable benchmark lending rate published by the People's Bank of China. The funds are available to draw down over a three year period commencing from 31 December 2012 and mature 15 years from the date of the first draw down. At 31 December 2012, the finance facility remained undrawn. Kazakhmys PLC acts as guarantor of the loan.

During 2013, the Group had drawn down CNY 350 million ($57 million) under the RMB facility. Arrangement fees with an amortised cost of $0.6 million, gross cost before amortisation of $0.8 million, have been netted off against these borrowings in accordance with IAS 39. In order to protect the Group from currency risks arising on this CNY denominated debt, the Group has entered into a CNY/US$ cross currency swap during the year. This derivative instrument provides a hedge against any movement in the CNY exchange rate against the US dollar and also swaps the interest basis from a CNY interest rate into a US$ LIBOR interest basis. The fair value of the swap at 31 December 2013 is not material.

### Undrawn project and general and corporate purpose facilities

| $ million | 2013 | 2012 |
|---|---|---|
| Pre-export finance facility (within Kazakhmys Finance) | – | 1,000 |
| CDB Aktogay finance facility (within Kazakhmys Finance) | 1,443 | 1,500 |
| CDB/Samruk-Kazyna project specific finance facility (within Kazakhmys Finance) | – | 200 |
| Revolving credit facilities (within Kazakhmys Finance) | 100 | 300 |
| Letter of credit and bank guarantee facilities (within Kazakhmys LLC) | 82 | 85 |
| | 1,625 | 3,085 |

## 16. Employee benefits

Kazakhmys LLC provides post-retirement benefits and other long-term benefits in Kazakhstan which are unfunded. The largest portion of the employee benefits provision is for other long-term benefits, of which the most significant is for the long-term disability allowances. The other benefits provided include one-time retirement grants, financial aid, dental care, medical benefits, sanatorium visits, annual financial support to pensioners and funeral aid.

The amounts recognised in the income statements are as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| Employer’s share of current service cost | 19 | 2 |
| Employer’s share of past service cost | 84 | – |
| Actuarial losses recognised in period | 74 | 190 |
| Interest cost on benefits obligation | 26 | 15 |
| | 203 | 207 |

In accordance with Kazakhstan law, the Group obtained insurance cover for the disability payments to employees from February 2005. These disability payments that were covered by insurance contracts were accounted for under IAS 19 *’Employee benefits’* as an insured benefit, with no asset or liability being recognised on the Group’s balance sheet. During 2013, as a result of financial difficulties, the insurance companies ceased making their obligated payments to the employees covered by insurance contracts. The Group has agreed to meet these future disability payments. Consequently at 31 December 2013, the liability for the future disability benefit payments to the employees previously covered by the insurance contracts has been included in the disability benefits obligation. Of the total income statement charge of $203 million for the year, $84 million relates to the assumption of this obligation by the Group and has been treated as a one-off special item. Also included in the income statement charge are the current service cost of $19 million and actuarial losses recognised in the period of $74 million arising from an increase in the number of new claimants and changes in the actuarial assumptions.

The expense is recognised in the following line items of the income statements:

| $ million | 2013 | 2012 |
|---|---|---|
| Administrative expenses | 177 | 192 |
| Finance costs | 26 | 15 |
| | 203 | 207 |

The movement in the defined employee benefits obligation is as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| At 1 January | **373** | 212 |
| Employer's share of current service cost | **19** | 2 |
| Employer's share of past service cost | **84** | – |
| Net actuarial losses arising in the income statement | **74** | 190 |
| Net actuarial losses recognised in other comprehensive income | **27** | – |
| Interest cost on benefit obligation | **26** | 15 |
| Benefits paid | **(52)** | (41) |
| Net exchange adjustment | **(8)** | (5) |
| **Defined benefit obligation at 31 December** | **543** | 373 |

The movement in the plan asset is as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| At 1 January | **–** | – |
| Interest income | **1** | – |
| Contributions by employer | **64** | 41 |
| Benefits paid | **(52)** | (41) |
| **Fair value of plan assets at 31 December** | **13** | – |

The employee benefits obligation of $530 million, consists of $60 million (2012: $36 million) related to post-employment benefits and $470 million (2012: $337 million) related to other long-term benefits.

The net liability and expected settlement of the defined benefit obligation is as follows:

| $ million | 2013 | 2012 |
|---|---|---|
| Defined benefit obligation | **543** | 373 |
| Less fair value of plan assets | **13** | – |
| **Net liability recognised at 31 December** | **530** | 373 |
| Current | **53** | 43 |
| Non-current | **477** | 330 |
| | **530** | 373 |

The principal actuarial assumptions used in determining the employee benefit obligation are as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate at 31 December | **8.2%** | 7.2% |
| Future salary increases | **3.4%** | 3.2% |
| Medical and other related cost increases | **5.0%** | 5.0% |

In addition, mortality rates were determined with reference to the 2011 mortality table of Kazakhstan as published by the Government.

Historical information is as follows:

| $ million | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit obligation | **543** | 373 | 211 | 58 | 50 |
| Plan assets | **13** | – | – | – | – |
| Deficit | **(530)** | (373) | (211) | (58) | (50) |
| Experience adjustments on plan liabilities | **91** | 190 | 6 | – | – |

## 17. Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

| $ million | 2013 | 2012 |
|---|---|---|
| (Loss)/profit before taxation from continuing operations | **(681)** | 151 |
| Loss before taxation from discontinued operations | **(1,223)** | (2,329) |
| Interest income | **(12)** | (17) |
| Interest expense | **53** | 84 |
| Share-based payments | **5** | 6 |
| Depreciation and depletion | **282** | 269 |
| Amortisation | **6** | 7 |
| Share of profits from joint venture | **(89)** | (126) |
| Share of (profits)/losses from associate | **(65)** | 258 |
| Impairment losses | **1,535** | 2,443 |
| Unrealised foreign exchange loss | **32** | 6 |
| Loss on disposal of subsidiary | **1** | 8 |
| Loss on disposal of associate | **528** | – |
| Loss on disposal of property, plant and equipment | **14** | 2 |
| **Operating cash flows before changes in working capital and provisions** | **386** | 762 |
| Increase in non-current VAT receivable | **(44)** | (69) |
| Decrease/(increase) in inventories | **145** | (40) |
| Decrease/(increase) in prepayments and other current assets | **31** | (177) |
| (Increase)/decrease in trade and other receivables | **(185)** | 52 |
| Increase in employee benefits | **138** | 168 |
| Increase/(decrease) in provisions | **6** | (35) |
| Increase in trade and other payables | **27** | 171 |
| **Cash flow from operations before interest, income taxes and dividends from associate and joint venture** | **504** | 832 |

### Non-cash transactions

There were the following non-cash transactions:

- as stated in note 3(a)(v) the Group capitalised depreciation of $14 million (2012: $12 million) for property, plant and equipment and mining assets.
- the Group released $1 million (2012: $5 million) relating to provisions for contractual reimbursements payable to the Government for geological information and social commitments with a corresponding increase in intangible assets.
- the reassessment of the site restoration and clean up provisions during the year has resulted in the capitalisation of $1 million (2012: $9 million) to property, plant and equipment, with a corresponding increase in the site restoration and clean up provisions.

## 18. Movement in net debt

| $ million | At 1 January 2013 | **Cash flow** | **Attributable to discontinued operations** | **Other movements**[1] | **At 31 December 2013** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,246 | **470** | **4** | **(5)** | **1,715** |
| Current investments | 515 | **110** | **–** | **–** | **625** |
| Borrowings | (2,468) | **(683)** | **56** | **(16)** | **(3,111)** |
| **Net debt** | (707) | **(103)** | **60** | **(21)** | **(771)** |

| $ million | At 1 January 2012 | Cash flow | Attributable to discontinued operations | Other movements[1] | At 31 December 2012 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,102 | 140 | 5 | (1) | 1,246 |
| Current investments | 810 | (282) | – | (13) | 515 |
| Borrowings | (1,893) | (569) | 1 | (7) | (2,468) |
| **Net liquid funds/(debt)** | 19 | (711) | 6 | (21) | (707) |

[1] Other movements comprise net foreign exchange movements, non-cash amortisation of fees on borrowings and other non-cash reconciling items. For the year ended 31 December 2013, the $16 million other movement on borrowings consists of $14 million amortisation of fees and $2 million foreign exchange differences on the CDB Aktogay RMB facility. For the year ended 31 December 2012, the $13 million movement in current investments relates to the investments disposed of when a Kazakhstan subsidiary company was sold in early 2012 (see note 6(c)).

## 19. Related party disclosures

### (a) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period:

| $ million | Sales to related parties | Purchases from related parties | Amounts owed by related parties [1] | Amounts owed to related parties |
|---|---|---|---|---|
| **Companies under trust management** | | | | |
| **2013** | **12** | **6** | **43** | **6** |
| 2012 | 10 | 9 | 58 | – |
| **Other** | | | | |
| **2013** | **2** | **20** | **11** | **–** |
| 2012 | 2 | 23 | 13 | 1 |

[1] A provision of $46 million (2012: $56 million) is held set against the amounts owed by related parties. The bad debt reversal in relation to related parties was $10 million for the year (2012: expense of $3 million).

#### *(i) Government*

*Share ownership in the Company*

On 24 July 2008, the Company issued 80,286,050 ordinary shares to the State Property and Privatisation Committee of the Government, thereby making the Government a 15.0% shareholder of the Company and a related party with effect from this date.

On 4 October 2010, the Group's Chairman, Vladimir Kim, sold 58,876,793 ordinary shares, approximately 11.0% of Kazakhmys' shares in issue, to Samruk-Kazyna. As a result of the transaction, the Government's interest in the Group increased to 139,162,843 ordinary shares, representing approximately 26.0% of the shares in issue. The Government's interest is held via The State Property & Privatisation Committee's existing 15.0% holding and the 11.0% shareholding of Samruk-Kazyna.

Following the purchase of 11,701,830 of the Company's shares under the share buy-back programme which completed in May 2012, the Government's percentage of the total voting rights held increased to 26.57% as at 31 December 2012.

On 19 June 2013, the Government transferred its entire shareholding to Eurasian Resources.

*Eurasian Resources*

Eurasian Resources held 139,162,843 ordinary shares in Kazakhmys PLC following a transfer from the Government of Kazakhstan on 19 June 2013. As part of the settlement of the consideration under the ENRC Takeover Offer on 8 November 2013 Kazakhmys PLC received from Eurasian Resources 77,041,147 of its ordinary shares, which were subsequently cancelled.

*China Development Bank ('CDB') and Samruk-Kazyna financing line*

As explained in note 15, the Group secured a $2.7 billion financing line with Samruk-Kazyna, a wholly owned subsidiary of the Government of Kazakhstan, and the CDB. The terms and conditions of the financing line, including a guarantee issued by the Group over the debt obligations of Samruk-Kazyna to the CDB under the financing line, are considered to be on an arm's length basis.

*Other transactions*

In the normal course of business, the Group conducts transactions with entities controlled by the Government. The principal activities relate to the payment of electricity transmission fees, use of railway infrastructure and payments to tax authorities. In addition, the Group also constructs or pays for the construction of community assets and projects which may be transferred to the relevant Government department as part of the Group's social programme in Kazakhstan. Transactions between the Group and Government departments and agencies are considered to be related party transactions. Disclosure of these routine transactions is not made where all of the following criteria are met:

- they were done in the ordinary course of business of the Government department and/or company;

- there is no choice of suppliers; and
- they have terms and conditions (including prices, privileges, credit terms, regulations, etc.) that are consistently applied to all entities, public or private.

The Group did not have any material or significant non-arm's length or privileged transactions with entities controlled by the Government (2012: $nil).

*Dividend payment*

The Government's share of the dividend paid by the Company in 2013 was $11 million (2012: $32 million).

*(ii) ENRC*

In 2013, the Group received no dividends from ENRC (2012: $59 million).

*(iii) Ekibastuz GRES-1*

In 2013, the Group received no dividends from Ekibastuz GRES-1, the joint venture in which the Group has a 50% interest (2012: $28 million).

*(iv) Companies under trust management agreements*

The Group operates a number of companies under trust management agreements with local and state authorities. The activities include heating distribution systems and road maintenance. The purpose of these agreements is to provide public and social services without any material financial benefit for the Group.

*(v) Other*

Transactions with other companies primarily relate to the provision of goods and services, on an arm's length basis, with companies whose boards or shareholders include members of senior management from the Group's subsidiaries.

### (b) Terms and conditions of transactions with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

## 20. Events after the balance sheet date

### (a) Shareholders vote on Ekibastuz GRES-1

On 7 January 2014, the Group's shareholders approved the sale of the remaining 50% of the issued share capital of Ekibastuz GRES-1 and 100% of the issued share capital of Kaz Hydro to Samruk-Energo (see note 12).

### (b) Repayment of $400 million under the CDB/Samruk-Kazyna financing facilities

On 9 January 2014, the Group repaid early $400 million of the CDB/Samruk-Kazyna financing facility relating to two mid-sized projects.

### (c) Kazakhstan tenge ('KZT') devaluation

On 11 February 2014, the National Bank of Kazakhstan announced it would seek to support the tenge at around 185 KZT to the US Dollar with the tenge quickly trading to this level, a 19% devaluation. Should this exchange rate be sustained, the Group's operating costs which have an underlying tenge exposure will reduce when reported in US Dollars, however the benefit is likely to be partially offset by higher inflation, including the impact of a planned increase in salaries at Kazakhmys of up to 10%, with effect from 1 April 2014.